



COMMUNITY HEALTH SYSTEMS INC

FORM 10-Q

(Quarterly Report)

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Address 4000 MERIDIAN BOULEVARD, FRANKLIN, TN, 37067
Telephone (727) 384-2323
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2023 ☐

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

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)

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

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 October 20, 2023, there were outstanding 136,800,913 shares of the Registrant's Common Stock, \$0.01 par value.

Community Health Systems, Inc.
Form 10-Q
For the Three and Nine Months Ended September 30, 2023

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<i>Net operating revenues</i>	\$ 3,086	\$ 3,025	\$ 9,308	\$ 9,069
<i>Operating costs and expenses:</i>				
Salaries and benefits	1,338	1,352	4,040	3,972
Supplies	489	492	1,499	1,477
Other operating expenses	853	828	2,524	2,511
Lease cost and rent	79	80	240	236
Pandemic relief funds	—	(115)	—	(171)
Depreciation and amortization	128	137	384	398
Impairment and (gain) loss on sale of businesses, net	26	47	(9)	54
Total operating costs and expenses	2,913	2,821	8,678	8,477
<i>Income from operations</i>	173	204	630	592
Interest expense, net	208	217	621	652
Loss (gain) from early extinguishment of debt	—	(78)	—	(73)
Equity in earnings of unconsolidated affiliates	(2)	(5)	(5)	(11)
(Loss) income before income taxes	(33)	70	14	24
Provision for income taxes	19	70	84	291
<i>Net (loss) income</i>	(52)	—	(70)	(267)
Less: Net income attributable to noncontrolling interests	39	42	110	102
<i>Net loss attributable to Community Health Systems, Inc. stockholders</i>	<u>\$ (91)</u>	<u>\$ (42)</u>	<u>\$ (180)</u>	<u>\$ (369)</u>
<i>Loss per share attributable to Community Health Systems, Inc. stockholders:</i>				
Basic	<u>\$ (0.69)</u>	<u>\$ (0.32)</u>	<u>\$ (1.38)</u>	<u>\$ (2.86)</u>
Diluted	<u>\$ (0.69)</u>	<u>\$ (0.32)</u>	<u>\$ (1.38)</u>	<u>\$ (2.86)</u>
<i>Weighted-average number of shares outstanding:</i>				
Basic	<u>130,698,907</u>	<u>129,141,673</u>	<u>130,352,865</u>	<u>128,689,999</u>
Diluted	<u>130,698,907</u>	<u>129,141,673</u>	<u>130,352,865</u>	<u>128,689,999</u>

See accompanying notes to the condensed consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In millions)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Net (loss) income	\$ (52)	\$ —	\$ (70)	\$ (267)
Other comprehensive (loss) income, net of income taxes:				
Net change in fair value of available-for-sale debt securities, net of tax	(3)	(6)	(1)	(20)
Amortization and recognition of unrecognized pension cost components, net of tax	—	—	—	1
Other comprehensive loss	(3)	(6)	(1)	(19)
Comprehensive loss	(55)	(6)	(71)	(286)
Less: Comprehensive income attributable to noncontrolling interests	39	42	110	102
Comprehensive loss attributable to Community Health Systems, Inc. stockholders	<u>\$ (94)</u>	<u>\$ (48)</u>	<u>\$ (181)</u>	<u>\$ (388)</u>

See accompanying notes to the condensed consolidated financial statements.

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

	September 30, 2023	December 31, 2022
ASSETS		
<i>Current assets:</i>		
Cash and cash equivalents	\$ 91	\$ 118
Patient accounts receivable	2,160	2,040
Supplies	325	353
Prepaid income taxes	98	99
Prepaid expenses and taxes	249	237
Other current assets	325	235
Total current assets	3,248	3,082
<i>Property and equipment</i>	9,367	9,639
Less accumulated depreciation and amortization	(4,207)	(4,274)
Property and equipment, net	5,160	5,365
<i>Goodwill</i>	3,943	4,166
<i>Deferred income taxes</i>	49	49
<i>Other assets, net</i>	2,274	2,007
<i>Total assets</i>	<u>\$ 14,674</u>	<u>\$ 14,669</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
<i>Current liabilities:</i>		
Current maturities of long-term debt	\$ 22	\$ 21
Current operating lease liabilities	121	148
Accounts payable	837	773
<i>Accrued liabilities:</i>		
Employee compensation	513	637
Accrued interest	184	189
Other	472	418
Total current liabilities	2,149	2,186
<i>Long-term debt</i>	11,820	11,614
<i>Deferred income taxes</i>	344	354
<i>Long-term operating lease liabilities</i>	560	605
<i>Other long-term liabilities</i>	694	644
<i>Total liabilities</i>	15,567	15,403
<i>Redeemable noncontrolling interests in equity of consolidated subsidiaries</i>	329	541
STOCKHOLDERS' DEFICIT		
<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; 136,772,094 shares issued and outstanding at September 30, 2023, and 134,703,717 shares issued and outstanding at December 31, 2022	1	1
Additional paid-in capital	2,170	2,084
Accumulated other comprehensive loss	(23)	(21)
Accumulated deficit	(3,611)	(3,431)
Total Community Health Systems, Inc. stockholders' deficit	(1,463)	(1,367)
<i>Noncontrolling interests in equity of consolidated subsidiaries</i>	241	92
<i>Total stockholders' deficit</i>	(1,222)	(1,275)
<i>Total liabilities and stockholders' deficit</i>	<u>\$ 14,674</u>	<u>\$ 14,669</u>

See accompanying notes to the condensed consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended September 30,	
	2023	2022
<i>Cash flows from operating activities:</i>		
Net loss	\$ (70)	\$ (267)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	384	398
Deferred income taxes	22	290
Stock-based compensation expense	16	14
Impairment and (gain) loss on sale of businesses, net	(9)	54
Loss (gain) from early extinguishment of debt	—	(73)
Other non-cash expenses, net	132	140
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Patient accounts receivable	(119)	93
Supplies, prepaid expenses and other current assets	(100)	(94)
Accounts payable, accrued liabilities and income taxes	(69)	(90)
Other	(67)	(174)
Net cash provided by operating activities	120	291
<i>Cash flows from investing activities:</i>		
Acquisitions of facilities and other related businesses	(35)	(9)
Purchases of property and equipment	(357)	(284)
Proceeds from disposition of hospitals and other ancillary operations	123	3
Proceeds from sale of property and equipment	27	30
Purchases of available-for-sale debt securities and equity securities	(126)	(73)
Proceeds from sales of available-for-sale debt securities and equity securities	221	62
Distribution of CoreTrust proceeds	—	121
Purchases of investments in unconsolidated affiliates	(8)	(18)
Increase in other investments	(51)	(39)
Net cash used in investing activities	(206)	(207)
<i>Cash flows from financing activities:</i>		
Repurchase of restricted stock shares for payroll tax withholding requirements	(4)	(8)
Deferred financing costs and other debt-related costs	—	(73)
Proceeds from noncontrolling investors in joint ventures	4	10
Redemption of noncontrolling investments in joint ventures	(1)	(2)
Distributions to noncontrolling investors in joint ventures	(108)	(105)
Other borrowings	30	35
Issuance of long-term debt	—	1,535
Proceeds from ABL Facility	2,290	—
Repayments of long-term indebtedness	(2,152)	(1,683)
Net cash provided by (used in) financing activities	59	(291)
<i>Net change in cash and cash equivalents</i>	(27)	(207)
<i>Cash and cash equivalents at beginning of period</i>	118	507
<i>Cash and cash equivalents at end of period</i>	\$ 91	\$ 300
<i>Supplemental disclosure of cash flow information:</i>		
Interest payments	\$ (583)	\$ (614)
Income tax payments, net	\$ (61)	\$ (6)

See accompanying notes to the condensed consolidated financial statements.

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

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of Community Health Systems, Inc. (the "Parent" or "Parent Company") and its subsidiaries (the "Company") as of September 30, 2023 and December 31, 2022 and for the three-month and nine-month periods ended September 30, 2023 and 2022, 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 and nine months ended September 30, 2023, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2023. 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.

Certain information and disclosures normally included in the notes to the 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, 2022, contained in the Company's Annual Report on Form 10-K filed with the SEC on February 17, 2023 ("2022 Form 10-K").

Noncontrolling interests in less-than-wholly-owned consolidated subsidiaries of the Parent are presented as a component of total equity in 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 in the condensed consolidated balance sheets.

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 include the Company's corporate office costs at its Franklin, Tennessee office, which were \$61 million and \$60 million for the three months ended September 30, 2023 and 2022, respectively, and \$187 million and \$179 million for the nine months ended September 30, 2023 and 2022, respectively.

Throughout these notes to the unaudited 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.

Revenue Recognition.

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 each of the three and nine-month periods ended September 30, 2023 and 2022, the impact of changes to the inputs used to determine the transaction price was considered immaterial.

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

Currently, several states utilize supplemental reimbursement programs for the purpose of providing reimbursement to providers that is not specifically tied to an individual's care, some of which offsets 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 payment is reasonably assured. Reimbursement under these programs is reflected in net operating revenues. Taxes or other program-related costs are reflected in other operating expenses.

The Company's net operating revenues during the three and nine months ended September 30, 2023 and 2022 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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Medicare	\$ 608	\$ 644	\$ 1,884	\$ 1,928
Medicare Managed Care	498	479	1,563	1,471
Medicaid	456	449	1,328	1,362
Managed Care and other third-party payors	1,479	1,446	4,441	4,248
Self-pay	45	7	92	60
Total	<u>\$ 3,086</u>	<u>\$ 3,025</u>	<u>\$ 9,308</u>	<u>\$ 9,069</u>

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, Medicare Managed Care, 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 operating revenues and admissions by payor classification, days revenue outstanding, the composition of self-pay receivables between pure self-pay patients and the patient responsibility portion of third-party insured receivables, the impact of recent acquisitions and dispositions and the impact of current macroeconomic conditions and other events.

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 \$119 million and \$101 million as of September 30, 2023 and December 31, 2022, respectively, and these amounts are included in accrued liabilities-other in the accompanying condensed consolidated balance sheets. Amounts due from third-party payors were \$121 million and \$97 million as of September 30, 2023 and December 31, 2022, 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 2018.

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 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 \$355 million and \$285 million for the three months ended September 30, 2023 and 2022, respectively, and \$1.0 billion and \$1.1 billion for the nine months ended September 30, 2023 and 2022, 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 \$39 million and \$33 million during the three months ended September 30, 2023 and 2022, respectively, and \$111 million and \$121 million for the nine months ended September 30, 2023 and 2022, 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.

Accounting for the Impairment or Disposal of Long-Lived Assets. During the nine months ended September 30, 2023, the Company recorded a net gain of approximately \$9 million, comprised of a gain of \$63 million related to the sale of three hospitals, offset by (i) an approximate \$21 million impairment charge to adjust the carrying value of long-lived assets at a hospital that was sold at a sales price below carrying value, (ii) an approximate \$25 million impairment charge recorded to reduce the carrying value of two hospitals that were deemed held-for-sale based on the difference between the carrying value of the disposal group compared to the estimated fair value less costs to sell, and (iii) an approximate \$8 million impairment charge recorded to reduce the carrying value of several assets that were idled, disposed of or held-for-sale. During the nine months ended September 30, 2023, approximately \$84 million of goodwill was allocated from the hospital operations reporting unit associated with the disposal groups for which impairment charges or a gain on sale was recorded during the period.

During the nine months ended September 30, 2022, the Company recorded an impairment charge of approximately \$54 million, which consists of \$6 million to adjust the carrying value of long-lived assets at a hospital that was subsequently sold at a sales price below carrying value and \$48 million primarily related to the closure of Shorepoint Health Venice in Venice, Florida, and near-complete closure of First Hospital Wyoming Valley (psychiatric hospital) in Wilkes-Barre, Pennsylvania, during the three months ended September 30, 2022.

The Company will continue to evaluate the potential for impairment of the long-lived assets of hospitals and other held-and-used businesses as well as evaluate offers for potential sales, as applicable. Based on such analysis, additional impairment charges may be recorded in the future.

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 2009 Stock Option and Award Plan, which was most recently amended and restated as of March 22, 2023 and most recently approved by the Company's stockholders at the annual meeting of stockholders held on May 9, 2023 (the "2009 Plan").

The 2009 Plan provides for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code ("IRC") and for the grant of stock options which do not so qualify, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), 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, these options vest in one-third increments on each of the first three anniversaries of the option grant date and expire on the tenth anniversary of the option grant date. The exercise price of all options granted under the 2009 Plan is equal to the fair value of the Company's common stock on the option grant date. As of September 30, 2023, 9,029,110 shares of unissued common stock were reserved for future grants under the 2009 Plan.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Effect on (loss) income before income taxes	\$ (6)	\$ (6)	\$ (16)	\$ (14)
Effect on net (loss) income	\$ (5)	\$ (5)	\$ (13)	\$ (11)

At September 30, 2023, \$34 million of unrecognized stock-based compensation expense related to outstanding unvested stock options, restricted stock and restricted stock units (the terms of which are summarized below) was expected to be recognized over a weighted-average period of 22 months. Of that amount, \$6 million relates to outstanding unvested stock options expected to be recognized over a weighted-average period of 22 months and \$28 million relates to outstanding unvested restricted stock and restricted stock units expected to be recognized over a weighted-average period of 22 months. There were no modifications to awards during the nine months ended September 30, 2023 and 2022.

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 and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Expected volatility	N/A	N/A	87.3%	84.3% - 87.5%
Expected dividends	N/A	N/A	—	—
Expected term	N/A	N/A	6 years	3 - 6 years
Risk-free interest rate	N/A	N/A	4.2%	1.5% - 1.6%

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 discernible employee populations. From this analysis, in determining the expected term for the nine months ended September 30, 2023, the Company identified one population, consisting of persons receiving grants of stock options. Additionally, in determining the expected term for the nine months ended September 30, 2022, two populations were identified, one consisting of certain senior executives who have since retired, and the other consisting of substantially all other recipients.

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

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.

Options outstanding and exercisable under the 2009 Plan as of September 30, 2023, and changes during each of the three-month periods following December 31, 2022, was as follows (in millions, except share and per share data):

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value as of September 30, 2023
Outstanding at December 31, 2022	2,831,751	\$ 7.32		
Granted	814,000	6.15		
Exercised	(8,334)	4.97		
Forfeited and cancelled	—	—		
Outstanding at March 31, 2023	3,637,417	7.06		
Granted	—	—		
Exercised	(6,667)	4.93		
Forfeited and cancelled	—	—		
Outstanding at June 30, 2023	3,630,750	7.07		
Granted	—	—		
Exercised	—	—		
Forfeited and cancelled	—	—		
Outstanding at September 30, 2023	3,630,750	\$ 7.07	7.6 years	\$ —
Exercisable at September 30, 2023	2,071,994	\$ 6.46	6.7 years	\$ —

No stock options were granted during the three months ended September 30, 2023 and 2022. The weighted-average grant date fair value of stock options granted during the nine months ended September 30, 2023 and 2022 was \$4.61 and \$7.25, respectively. 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 (\$2.90) and the exercise price of the respective stock options) in the table above represents the amount that would have been received by the option holders had all option holders exercised their options on September 30, 2023. This amount changes based on the market value of the Company's common stock. The aggregate intrinsic value of options exercised was less than \$1 million during both of the nine-month periods ended September 30, 2023 and 2022. No options were exercised during the three months ended September 30, 2023 and 2022. 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 performance-based awards, the performance objectives are measured cumulatively over a three-year period. If the applicable target performance objective is met at the end of the three-year period, then the restricted stock award subject to such performance objective will vest in full on the third anniversary of the award date. Additionally, for these performance-based 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, change in control of the Company or, other than for performance-based awards, termination of employment by the Company for any reason other than for cause of the holder of the restricted stock. On March 1, 2023, restricted stock awards subject to performance objectives granted on March 1, 2020 vested at 100% of the shares originally granted based on the Company's cumulative performance compared to objectives for the 2020 through 2022 performance period. Restricted stock awards subject to performance objectives that have not yet been satisfied are not

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

considered outstanding for purposes of determining diluted earnings per share unless the performance objectives have been satisfied on the basis of results through the end of each respective reporting period.

Restricted stock outstanding under the 2009 Plan as of September 30, 2023, and changes during each of the three-month periods following December 31, 2022, was as follows:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2022	5,541,065	\$ 8.53
Granted	2,651,000	6.14
Vested	(2,076,569)	6.77
Forfeited	(10,001)	9.31
Unvested at March 31, 2023	6,105,495	8.09
Granted	59,000	3.34
Vested	(56,668)	8.79
Forfeited	(12,001)	9.32
Unvested at June 30, 2023	6,095,826	8.03
Granted	—	—
Vested	(4,001)	9.72
Forfeited	(20,668)	7.23
Unvested at September 30, 2023	<u>6,071,157</u>	8.03

RSUs have been granted to the Company's non-management directors under the 2009 Plan. Each of the Company's then serving non-management directors received grants under the 2009 Plan of 29,268 RSUs and 17,682 RSUs with a grant date of March 1, 2023 and 2022, respectively. Both the March 2023 and 2022 grants had a grant date fair value of approximately \$180,000. In addition to the grants set forth above, on March 1, 2023, the non-employee Chairman of the Board of Directors was awarded an additional RSU grant of 43,089 RSUs with a grant date fair value of approximately \$265,000 as additional compensation for serving as chairman of the Board of Directors. 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. Each non-management director may elect, prior to the beginning of the calendar year in which the award is granted, to defer the receipt of shares of the Company's common stock issuable upon vesting until either his or her (i) separation from service with the Company or (ii) attainment of an age specified in advance by the non-management director. A total of four directors elected to defer the receipt of RSUs granted on March 1, 2023 to a future date and a total of three directors elected to defer the receipt of RSUs granted on March 1, 2022 to a future date.

RSUs outstanding under the 2009 Plan as of September 30, 2023, and changes during each of the three-month periods following December 31, 2022, was as follows:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2022	512,360	\$ 7.54
Granted	365,037	6.15
Vested	(95,577)	7.92
Forfeited	—	—
Unvested at March 31, 2023	781,820	6.84
Granted	—	—
Vested	(5,894)	5.00
Forfeited	—	—
Unvested at June 30, 2023	775,926	6.86
Granted	—	—
Vested	—	—
Forfeited	—	—
Unvested at September 30, 2023	<u>775,926</u>	6.86

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

3. 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.

The Company accounts for asset acquisitions pursuant to a cost accumulation model. Direct transaction costs are recognized as part of the cost of an acquisition. The Company also evaluates which elements of a transaction should be accounted for as part of an asset acquisition and which should be accounted for separately. The cost of an asset acquisition, including transaction costs, is allocated to identifiable assets acquired and liabilities assumed based on a relative fair value basis. Goodwill is not recognized in an asset acquisition.

During the nine months ended September 30, 2023, one or more subsidiaries of the Company paid approximately \$35 million to acquire the operating assets and related businesses of certain physician practices, clinics, ambulatory surgery centers and other ancillary businesses that operate within the communities served by the Company's affiliated hospitals. The majority of this amount relates to the Company's purchase of certain assets from American Physician Partners ("APP") for approximately \$20 million. This transaction, which resulted in the Company recording a definite-lived intangible asset for the acquisition of an assembled workforce, was accounted for as an asset acquisition. In connection with these acquisitions, inclusive of APP, the Company allocated the purchase price to property and equipment, working capital, intangible assets, noncontrolling interests and goodwill.

Divestitures

The following table provides a summary of hospitals that the Company divested (or, in the case of Lutheran Rehabilitation Hospital, in which the Company sold a majority interest) during the nine months ended September 30, 2023 and the year ended December 31, 2022:

Hospital	Buyer	City, State	Licensed Beds	Effective Date
2023 Divestitures:				
Greenbrier Valley Medical Center	Vandalia Health, Inc.	Ronceverte, WV	122	January 1, 2023
Plateau Medical Center	Vandalia Health, Inc.	Oak Hill, WV	25	April 1, 2023
Medical Center of South Arkansas	SARH Holdings, Inc.	El Dorado, AR	166	July 1, 2023
Lutheran Rehabilitation Hospital	Select Medical Corporation	Fort Wayne, IN	36	September 1, 2023
2022 Divestiture:				
AllianceHealth Seminole	SSM HealthCare of Oklahoma, Inc.	Seminole, OK	32	July 1, 2022

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

On February 28, 2023, the Company entered into a definitive agreement for the sale of substantially all of the assets of Lake Norman Regional Medical Center (123 licensed beds) in Mooresville, North Carolina, and Davis Regional Medical Center (144 licensed beds) in Statesville, North Carolina, to Novant Health, Inc. These hospitals were classified as held-for-sale as of September 30, 2023.

On July 24, 2023, subsidiaries of the Company entered into a definitive agreement for the sale of substantially all of the assets of Bravera Health Brooksville (120 licensed beds) in Brooksville, Florida, Bravera Health Seven Rivers (128 licensed beds) in Crystal River, Florida, and Bravera Health Spring Hill (124 licensed beds) in Spring Hill, Florida, to Florida Health Sciences Center, Inc., and certain of its affiliates. These hospitals were classified as held-for-sale as of September 30, 2023.

On August 4, 2023, subsidiaries of the Company entered into a definitive agreement for the sale of AllianceHealth Ponca City (140 licensed beds) in Ponca City, Oklahoma, and AllianceHealth Woodward (87 licensed beds) in Woodward, Oklahoma, to INTEGRIS Health, Inc. During the three months ended December 31, 2022, the Company notified the lessor of AllianceHealth Woodward that it will not renew the lease that expires effective December 1, 2023. The lessor has subsequently selected INTEGRIS Health, Inc. as the new leaseholder and operator. These hospitals were classified as held-for-sale as of September 30, 2023.

The following table discloses amounts included in the condensed consolidated balance sheets for the hospitals classified as held-for-sale as of September 30, 2023 and December 31, 2022 (in millions). Other assets, net, primarily includes the net property and equipment and goodwill for the hospitals held-for-sale. No divestitures or potential divestitures meet the criteria for reporting as a discontinued operation as of September 30, 2023 or December 31, 2022.

	September 30, 2023	December 31, 2022
Other current assets	\$ 23	\$ 6
Other assets, net	469	132
Accrued liabilities	(33)	(4)

4. GOODWILL

The changes in the carrying amount of goodwill for the nine months ended September 30, 2023 are as follows (in millions):

Balance, as of December 31, 2022	
Goodwill	\$ 6,980
Accumulated impairment losses	(2,814)
	4,166
Goodwill acquired as part of acquisitions during current year	17
Goodwill allocated to hospitals divested or held-for-sale	(240)
Balance, as of September 30, 2023	
Goodwill	6,757
Accumulated impairment losses	(2,814)
	<u>\$ 3,943</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 segment meets the criteria to be classified as a reporting unit.

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. The Company performed its last annual goodwill impairment evaluation during the fourth quarter of 2022 using an October 31, 2022 measurement date, which indicated no impairment.

The Company estimates the fair value of the reporting unit 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.

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

The determination of fair value in the Company's goodwill impairment analysis is based on an estimate of fair value for the 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 and fair value of long-term debt, the Company's recent financial results, estimates of future revenue and expense growth, estimated market multiples, expected capital expenditures, income tax rates, costs of invested capital and a discount rate.

Future estimates of fair value could be adversely affected if the actual outcome of one or more of the assumptions described above changes materially in the future, including as a result of any decline in the Company's stock price and the fair value of its long-term debt, an increase in the volatility of the Company's stock price and the fair value of its long-term debt, lower-than-expected hospital volumes and/or net operating revenues, higher market interest rates, increased operating costs or other adverse impacts on the Company's financial results. Such changes impacting the calculation of fair value could result in a material impairment charge in the future.

The determination of fair value of the Company's hospital operations reporting unit as part of its goodwill impairment measurement represents a Level 3 fair value measurement in the fair value hierarchy due to its use of internal projections and unobservable measurement inputs.

5. INCOME TAXES

The total amount of unrecognized benefit that would affect the effective tax rate, if recognized, was \$32 million at September 30, 2023. A total of \$2 million of interest and penalties is included in the amount of the liability for uncertain tax positions at September 30, 2023. 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 financial position.

The Company's income tax return for the 2014, 2015 and 2018 tax years remain under examination by the Internal Revenue Service. The Company believes the result of this examination 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, 2024 for Community Health Systems, Inc. for the tax period ended December 31, 2018.

The Company's provision for income taxes was \$19 million and \$70 million for the three months ended September 30, 2023 and 2022, respectively, and \$84 million and \$291 million for the nine months ended September 30, 2023 and 2022, respectively. The Company's effective tax rates were (57.6)% and 100.0% for the three months ended September 30, 2023 and 2022, respectively, and 600.0% and 1,212.5% for the nine months ended September 30, 2023 and 2022, respectively. The decrease in the provision for income taxes for the three and nine months ended September 30, 2023, compared to the same period in 2022 was primarily due to a decrease in non-deductible interest for 2023 compared to 2022. The difference in the Company's effective tax rate for the three and nine months ended September 30, 2023, compared to the same period in 2022 is due to the decrease in the provision for income taxes and the decrease in (loss) income before taxes.

Cash paid for income taxes, net of refunds received, resulted in a net payment of \$24 million and approximately less than \$1 million during the three months ended September 30, 2023 and 2022, respectively, and \$61 million and \$6 million during the nine months ended September 30, 2023 and 2022, respectively.

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

6. LONG-TERM DEBT

Long-term debt, net of unamortized debt issuance costs and discounts or premiums, consists of the following (in millions):

	September 30, 2023	December 31, 2022
8% Senior Secured Notes due 2026	\$ 2,101	\$ 2,101
8% Senior Secured Notes due 2027	700	700
5½% Senior Secured Notes due 2027	1,900	1,900
6⅞% Senior Notes due 2028	756	756
6% Senior Secured Notes due 2029	900	900
5¼% Senior Secured Notes due 2030	1,535	1,535
4¾% Senior Secured Notes due 2031	1,058	1,058
6⅞% Junior-Priority Secured Notes due 2029	1,386	1,386
6⅞% Junior-Priority Secured Notes due 2030	1,232	1,232
ABL Facility	230	53
Finance lease and financing obligations	371	380
Other	32	36
Less: Unamortized deferred debt issuance costs and note premium	(359)	(402)
Total debt	11,842	11,635
Less: Current maturities	(22)	(21)
Total long-term debt	<u>\$ 11,820</u>	<u>\$ 11,614</u>

Pursuant to the asset-based loan (ABL) credit agreement, the lenders have extended to CHS/Community Health Systems, Inc. ("CHS") a revolving asset-based loan facility (the "ABL Facility"). The maximum aggregate principal amount under the ABL Facility is \$1.0 billion, subject to borrowing base capacity. At September 30, 2023, the Company had outstanding borrowings of \$230 million and approximately \$679 million of additional borrowing capacity (after taking into consideration the \$82 million of outstanding letters of credit) under the ABL Facility. The issued letters of credit were primarily in support of potential insurance-related claims and certain bonds.

The ABL Facility contains customary representations and warranties, subject to limitations and exceptions, and customary covenants restricting the Company's 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) engage in mergers, acquisitions and asset sales, (7) conduct transactions with affiliates, (8) alter the nature of the Company's, CHS' or the guarantors' businesses, (9) grant certain guarantees with respect to physician practices, (10) engage in sale and leaseback transactions or (11) change the Company's fiscal year. The Company is also required to comply with a consolidated fixed coverage ratio, upon certain triggering events described below, and various affirmative covenants. The consolidated fixed charge coverage ratio is calculated as the ratio of (x) consolidated EBITDA (as defined in the ABL Facility) less capital expenditures to (y) the sum of consolidated interest expense (as defined in the ABL Facility), scheduled principal payments, income taxes and restricted payments made in cash or in permitted investments. For purposes of calculating the consolidated fixed charge coverage ratio, the calculation of consolidated EBITDA as defined in the ABL Facility is a trailing 12-month calculation that begins with the Company's consolidated net income, with certain adjustments for interest, taxes, depreciation and amortization, net income attributable to noncontrolling interests, stock compensation expense, restructuring costs, and the financial impact of other non-cash or non-recurring items recorded during any such 12-month period. The consolidated fixed charge coverage ratio is a required covenant only in periods where the total borrowings outstanding under the ABL Facility reduce the amount available in the facility to less than the greater of (i) \$95 million or (ii) 10% of the calculated borrowing base. As a result, in the event the Company has less than \$95 million available under the ABL Facility, the Company would need to comply with the consolidated fixed charge coverage ratio. At September 30, 2023, the Company is not subject to the consolidated fixed charge coverage ratio as such triggering event had not occurred during the twelve months ended September 30, 2023.

The Company paid interest of \$198 million and \$204 million on borrowings during the three months ended September 30, 2023 and 2022, respectively, and \$583 million and \$614 million on borrowings during the nine months ended September 30, 2023 and 2022, respectively.

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

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments has been estimated by the Company using available market information as of September 30, 2023 and December 31, 2022, and valuation methodologies considered appropriate. The estimates presented in the table below are not necessarily indicative of amounts the Company could realize in a current market exchange (in millions):

	September 30, 2023		December 31, 2022	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	\$ 91	\$ 91	\$ 118	\$ 118
Investments in equity securities	63	63	107	107
Available-for-sale debt securities	173	173	179	179
Trading securities	4	4	5	5
Liabilities:				
8% Senior Secured Notes due 2026	2,087	2,005	2,083	1,917
8% Senior Secured Notes due 2027	694	651	693	631
5% Senior Secured Notes due 2027	1,843	1,635	1,833	1,633
6% Senior Notes due 2028	750	406	749	389
6% Senior Secured Notes due 2029	868	729	865	751
5¼% Senior Secured Notes due 2030	1,455	1,171	1,448	1,166
4¾% Senior Secured Notes due 2031	1,054	751	1,053	766
6% Junior-Priority Secured Notes due 2029	1,291	746	1,282	720
6% Junior-Priority Secured Notes due 2030	1,169	635	1,164	615
ABL Facility and other debt	259	259	85	85

The carrying value of the Company's long-term debt in the above table is presented net of unamortized deferred debt issuance costs. 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 8. 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 through publicly available subscription services such as Bloomberg to determine fair values 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).

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

Available-for-sale debt 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.

Senior Notes, Senior Secured Notes and Junior-Priority Secured Notes. Estimated fair value is based on the closing market price for these notes.

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

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

8. FAIR VALUE

Fair Value Hierarchy

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

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

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

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

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

In instances where the determination of the fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment of factors specific to the asset or liability. Transfers between levels within the fair value hierarchy are recognized by the Company on the date of the change in circumstances that requires such transfer. There were no transfers between levels during the nine months ended September 30, 2023 and 2022.

The following table sets forth, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis as of September 30, 2023 and December 31, 2022 (in millions):

	September 30, 2023	Level 1	Level 2	Level 3
Investments in equity securities	\$ 63	\$ 63	\$ —	\$ —
Available-for-sale debt securities	173	—	173	—
Trading securities	4	—	4	—
Total assets	<u>\$ 240</u>	<u>\$ 63</u>	<u>\$ 177</u>	<u>\$ —</u>
	December 31, 2022	Level 1	Level 2	Level 3
Investments in equity securities	\$ 107	\$ 107	\$ —	\$ —
Available-for-sale debt securities	179	—	179	—
Trading securities	5	—	5	—
Total assets	<u>\$ 291</u>	<u>\$ 107</u>	<u>\$ 184</u>	<u>\$ —</u>

Investments in Equity Securities, Available-for-Sale Debt Securities and Trading Securities

Investments in equity securities classified as Level 1 are measured using quoted market prices. Level 2 available-for-sale debt securities and trading securities primarily consist of bonds and notes issued by the United States government and its agencies and 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.

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

9. LEASES

The Company utilizes operating and finance leases for the use of certain hospitals, medical office buildings, and medical equipment. The components of lease cost and rent expense for the three and nine months ended September 30, 2023 and 2022 are as follows (in millions):

Lease Cost	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating lease cost:				
Operating lease cost	\$ 52	\$ 53	\$ 160	\$ 157
Short-term rent expense	22	21	66	66
Variable lease cost	6	7	18	16
Sublease income	(1)	(1)	(4)	(3)
Total operating lease cost	<u>\$ 79</u>	<u>\$ 80</u>	<u>\$ 240</u>	<u>\$ 236</u>
Finance lease cost:				
Amortization of right-of-use assets	\$ 4	\$ 3	\$ 10	\$ 10
Interest on finance lease liabilities	3	4	10	12
Total finance lease cost	<u>\$ 7</u>	<u>\$ 7</u>	<u>\$ 20</u>	<u>\$ 22</u>

Supplemental balance sheet information related to leases is as follows (in millions):

	Balance Sheet Classification	September 30, 2023	December 31, 2022
Operating Leases:			
Operating lease right-of-use assets	Other assets, net	\$ 664	\$ 738
Finance Leases:			
Finance lease right-of-use assets	<i>Property and equipment</i>		
	Land and improvements	\$ —	\$ —
	Buildings and improvements	246	261
	Equipment and fixtures	7	12
	<i>Property and equipment</i>	253	273
	Less accumulated depreciation and amortization	(61)	(56)
	Property and equipment, net	<u>\$ 192</u>	<u>\$ 217</u>
Current finance lease liabilities	Current maturities of long-term debt	\$ 2	\$ 3
Long-term finance lease liabilities	Long-term debt	217	220

Supplemental cash flow information related to leases for the nine months ended September 30, 2023 and 2022 is as follows (in millions):

	Nine Months Ended September 30,	
Cash flow information	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases ⁽¹⁾	\$ 153	\$ 152
Operating cash flows from finance leases	10	12
Financing cash flows from finance leases	3	9
Right-of-use assets obtained in exchange for new finance lease liabilities	—	42
Right-of-use assets obtained in exchange for new operating lease liabilities	64	105

(1) Included in the change in other operating assets and liabilities in the condensed consolidated statements of cash flows.

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

10. STOCKHOLDERS' DEFICIT

Authorized capital shares of the Company include 400,000,000 shares of capital stock consisting of 300,000,000 shares of common stock and 100,000,000 shares of preferred stock. Each of the aforementioned classes of capital stock has a par value of \$0.01 per share. Shares of preferred stock, none of which were outstanding as of September 30, 2023, 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.

The Company is a holding company which operates through its subsidiaries. The ABL Facility and the indentures governing each series of the Company's outstanding notes contain various covenants under which the assets of the subsidiaries of the Company are subject to certain restrictions relating to, among other matters, dividends and distributions, as referenced in the paragraph below.

The ABL Facility and the indentures governing each series of the Company's outstanding notes restrict the Company's subsidiaries from, among other matters, paying dividends and making distributions to the Company, which thereby limits the Company's ability to pay dividends and/or repurchase stock. As of September 30, 2023, under the most restrictive test in these agreements (and subject to certain exceptions), the Company has approximately \$300 million of capacity to pay permitted dividends and/or repurchase shares of stock or make other restricted payments.

The schedule below presents the reconciliation of the carrying amount of total equity, equity attributable to the Company's stockholders, and equity attributable to noncontrolling interests as of September 30, 2023, and during each of the three-month periods following December 31, 2022 (in millions). Other reclassifications of noncontrolling interests reflects reclassification of amounts from redeemable noncontrolling interests to noncontrolling interests due to the expiration of redemption features.

	Community Health Systems, Inc. Stockholders						
	Redeemabl e Noncontrol ling Interest	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensi ve (Loss) Income	Accumulated Deficit	Noncontrolli ng Interest	Total Stockholders' Deficit
Balance, December 31, 2022	\$ 541	\$ 1	\$ 2,084	\$ (21)	\$ (3,431)	\$ 92	\$ (1,275)
Comprehensive income (loss)	21	—	—	3	(51)	11	(37)
Distributions to noncontrolling interests	(33)	—	—	—	—	(11)	(11)
Purchases of subsidiary shares from noncontrolling interests	(1)	—	—	—	—	—	—
Contributions from noncontrolling interests	1	—	—	—	—	1	1
Adjustment to redemption value of redeemable noncontrolling interests	32	—	(32)	—	—	—	(32)
Cancellation of restricted stock for tax withholdings on vested shares	—	—	(4)	—	—	—	(4)
Share-based compensation	—	—	6	—	—	—	6
Balance, March 31, 2023	561	1	2,054	(18)	(3,482)	93	(1,352)
Comprehensive income (loss)	28	—	—	(1)	(38)	11	(28)
Distributions to noncontrolling interests	(21)	—	—	—	—	(19)	(19)
Contributions from noncontrolling interests	—	—	—	—	—	1	1
Purchases of subsidiary shares from noncontrolling interests	(6)	—	5	—	—	—	5
Noncontrolling interest in acquired entity	7	—	—	—	—	—	—
Adjustment to redemption value of redeemable noncontrolling interests	14	—	(14)	—	—	—	(14)
Share-based compensation	—	—	4	—	—	—	4
Balance, June 30, 2023	583	1	2,049	(19)	(3,520)	86	(1,403)
Comprehensive income (loss)	12	—	—	(3)	(91)	27	(67)
Distributions to noncontrolling interests	(8)	—	—	—	—	(17)	(17)
Other reclassifications of noncontrolling interests	(265)	—	122	(1)	—	145	266
Adjustment to redemption value of redeemable noncontrolling interests	7	—	(7)	—	—	—	(7)
Share-based compensation	—	—	6	—	—	—	6
Balance, September 30, 2023	<u>\$ 329</u>	<u>\$ 1</u>	<u>\$ 2,170</u>	<u>\$ (23)</u>	<u>\$ (3,611)</u>	<u>\$ 241</u>	<u>\$ (1,222)</u>

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

The following schedule presents the reconciliation of the carrying amount of total equity, equity attributable to the Company's stockholders, and equity attributable to the noncontrolling interests as of September 30, 2022, and during each of the three-month periods following December 31, 2021 (in millions):

	Community Health Systems, Inc. Stockholders							Total Stockholders' Deficit (1)	
	Redeemabl e Noncontrol ling Interest	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensi ve (Loss) Income (1)	Accumulated Deficit	Noncontrolli ng Interest			
Balance, December 31, 2021	\$ 480	\$ 1	\$ 2,118	\$ (14)	\$ (3,477)	\$ 82		\$	(1,290)
Comprehensive income (loss)	16	—	—	(8)	(1)	15		\$	6
Distributions to noncontrolling interests	(12)	—	—	—	—	(17)		\$	(17)
Purchases of subsidiary shares from noncontrolling interests	1	—	(1)	—	—	—		\$	(1)
Contributions from noncontrolling interests	1	—	—	—	—	—		\$	—
Adjustment to redemption value of redeemable noncontrolling interests	7	—	(7)	—	—	—		\$	(7)
Cancellation of restricted stock for tax withholdings on vested shares	—	—	(8)	—	—	—		\$	(8)
Share-based compensation	—	—	5	—	—	—		\$	5
Balance, March 31, 2022	493	1	2,107	(22)	(3,478)	80		\$	(1,312)
Comprehensive income (loss)	21	—	—	(6)	(326)	7		\$	(324)
Distributions to noncontrolling interests	(39)	—	—	—	—	(5)		\$	(5)
Noncontrolling interest in acquired entity	3	—	—	—	—	2		\$	2
Adjustment to redemption value of redeemable noncontrolling interests	20	—	(20)	—	—	—		\$	(20)
Share-based compensation	—	—	3	—	—	—		\$	3
Balance, June 30, 2022	498	1	2,090	(27)	(3,804)	84		\$	(1,656)
Comprehensive income (loss)	30	—	—	(6)	(41)	12		\$	(35)
Contributions from noncontrolling interests	1	—	—	—	—	8		\$	8
Distributions to noncontrolling interests	(20)	—	—	—	—	(12)		\$	(12)
Purchases of subsidiary shares from noncontrolling interests	(1)	—	(1)	—	—	—		\$	(1)
Adjustment to redemption value of redeemable noncontrolling interests	4	—	(4)	—	—	—		\$	(4)
Noncontrolling interest in acquired entity	4	—	—	—	—	—		\$	—
Share-based compensation	—	—	6	—	—	—		\$	6
Balance, September 30, 2022	<u>\$ 516</u>	<u>\$ 1</u>	<u>\$ 2,091</u>	<u>\$ (33)</u>	<u>\$ (3,845)</u>	<u>\$ 92</u>		<u>\$</u>	<u>(1,694)</u>

(1) Totals may not add due to rounding.

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' deficit (in millions):

	Three Months Ended September 30, 2023		September 30, 2022		Nine Months Ended September 30, 2023		September 30, 2022	
Net loss attributable to Community Health Systems, Inc. stockholders	\$	(91)	\$	(42)	\$	(180)	\$	(369)
Transfers to the noncontrolling interests:								
Net increase (decrease) in Community Health Systems, Inc. paid-in-capital for purchase of subsidiary partnership interests		—		(1)		5		(2)
Net transfers to the noncontrolling interests		—		(1)		5		(2)
Change to Community Health Systems, Inc. stockholders' deficit from net loss attributable to Community Health Systems, Inc. stockholders and transfers to noncontrolling interests	<u>\$</u>	<u>(91)</u>	<u>\$</u>	<u>(43)</u>	<u>\$</u>	<u>(175)</u>	<u>\$</u>	<u>(371)</u>

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

11. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Weighted-average number of shares outstanding — basic	130,698,907	129,141,673	130,352,865	128,689,999
Effect of dilutive securities:				
Restricted stock awards	—	—	—	—
Employee stock options	—	—	—	—
Other equity-based awards	—	—	—	—
Weighted-average number of shares outstanding — diluted	<u>130,698,907</u>	<u>129,141,673</u>	<u>130,352,865</u>	<u>128,689,999</u>

The Company generated a loss attributable to Community Health Systems, Inc. stockholders for each of the three-month and nine-month periods ended September 30, 2023 and 2022, so the effect of dilutive securities is not considered because their effect would be antidilutive. If the Company had generated income during the three months ended September 30, 2023 and 2022, the effect of restricted stock awards, employee stock options, and other equity-based awards on the diluted shares calculation would have been an increase of 224,178 shares and 565,641 shares, respectively. If the Company had generated income during the nine months ended September 30, 2023 and 2022, the effect of the restricted stock awards, employee stock options, and other equity-based awards on the diluted shares calculation would have been an increase of 298,184 shares and 1,305,604 shares, respectively.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Dilutive securities outstanding not included in the computation of earnings per share because their effect is antidilutive:				
Employee stock options and restricted stock awards	<u>5,894,797</u>	<u>5,764,161</u>	<u>6,325,261</u>	<u>3,826,769</u>

12. CONTINGENCIES

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

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

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

Probable Contingencies

Caleb Padilla, individually and on behalf of all others similarly situated v. Community Health Systems, Inc., Wayne T. Smith, Larry Cash, and Thomas J. Aaron. This purported federal securities class action was filed in the United States District Court for the Middle District of Tennessee on May 30, 2019. It seeks class certification on behalf of purchasers of the Company's common stock between February 20, 2017 and February 27, 2018 and alleges misleading statements resulted in artificially inflated prices for the Company's common stock. On November 20, 2019, the District Court appointed Arun Bhattacharya and Michael Gaviria as lead plaintiffs in the case. The lead plaintiffs filed a consolidated class complaint on January 21, 2020. The Company filed a motion to dismiss the consolidated class complaint on March 23, 2020, and the District Court denied that motion on August 17, 2022. The Company has reached a tentative settlement of this matter, which was preliminarily approved by the District Court on May 31, 2023. The Court granted final approval of the settlement on October 13, 2023.

Thomas Mason, MD, Steven Folstad, MD and Mid-Atlantic Emergency Medical Associates, PA v. Health Management Associates, LLC f/k/a Health Management Associates, Inc., Mooresville Hospital Management Associates d/b/a Lake Norman Regional Medical Center, Statesville HMA, LLC d/b/a Davis Regional Medical Center, Envision Healthcare Corporation f/k/a Emergency Medical Services Corporation, Emcare Holdings, Inc., and Emergency Medical Services, LP. This alleged wrongful retaliation case is filed in the United States District Court for the Western District of North Carolina. The plaintiffs allege their agreements with the defendants were terminated in retaliation for plaintiffs' alleged refusal to admit patients unnecessarily to the defendant hospitals or otherwise perform unnecessary diagnostic testing. The allegations of the complaint relate to time periods prior to the hospitals' affiliation with the Company. The plaintiffs filed a third amended complaint on April 26, 2019. The defendants filed motions to dismiss, which were granted in part and denied in part on September 5, 2019. A jury trial in this matter is set to begin on February 5, 2024. The Company continues to vigorously defend this case.

The table below presents a reconciliation of the beginning and ending liability balances (in millions) during the nine months ended September 30, 2023, with respect to the Company's determination of the contingencies of the Company in respect of which an accrual has been recorded.

Summary of Recorded Amounts

	Probable Contingencies
Balance as of December 31, 2022	\$ 11
Expense	34
Reserve for insured claim	4
Cash payments	(6)
Balance as of September 30, 2023	<u>\$ 43</u>

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

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

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

Throughout this 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 by distinct and indirect subsidiaries of Community Health Systems, Inc.

Executive Overview

We are one of the nation's largest healthcare companies. Our affiliates are leading providers of healthcare services, developing and operating healthcare delivery systems in 43 distinct markets across 15 states. As of September 30, 2023, our subsidiaries own or lease 76 affiliated hospitals, with over 12,000 beds, and operate more than 1,000 sites of care, including physician practices, urgent care centers, freestanding emergency departments, occupational medicine clinics, imaging centers, cancer centers and ambulatory surgery centers. We generate revenues by providing a broad range of general and specialized hospital healthcare services and outpatient services to patients in the communities in which we are located. We are paid for our services by governmental agencies, private insurers and directly by the patients we serve.

Economic conditions in the United States continue to be challenging in various respects, and the United States economy continues to experience significant inflationary pressures, elevated interest rates and challenging labor market conditions. Taking into account these factors, we have incurred, and may continue to incur, increased expenses arising from factors such as wage inflation for permanent employees, increased rates for and utilization of temporary contract labor (including contract nursing personnel) and increased rates for outsourced medical specialists. While we have implemented cost containment and other measures to try to counteract these developments, we may be unable to fully offset the impact of these factors on the operation of our business.

If economic conditions in the United States significantly deteriorate and/or negative public health conditions related to the COVID-19 pandemic reemerge, any such developments could materially and adversely affect our results of operations, financial position, and/or our cash flows.

Acquisition and Divestiture Activity

During the nine months ended September 30, 2023, we paid approximately \$35 million to acquire the operating assets and related businesses of certain physician practices, clinics, ambulatory surgery centers and other ancillary businesses that operate within the communities served by our hospitals. We allocated the purchase price in connection with these acquisitions to property and equipment, intangible assets, working capital, noncontrolling interests and goodwill.

During the nine months ended September 30, 2023, we completed the divestiture of two hospitals in West Virginia and one hospital in Arkansas and the sale of a majority interest in one hospital in Indiana. These hospitals represented annual net operating revenues in 2022 of approximately \$223 million and we received total net proceeds of approximately \$207 million in connection with these dispositions, inclusive of approximately \$85 million received at a preliminary closing on December 30, 2022 in connection with the disposition of Greenbrier Valley Medical Center.

The following table provides a summary of hospitals that we divested (or, in the case of Lutheran Rehabilitation Hospital, in which we sold a majority interest) during the nine months ended September 30, 2023 and the year ended December 31, 2022:

Hospital	Buyer	City, State	Licensed Beds	Effective Date
2023 Divestitures:				
Greenbrier Valley Medical Center	Vandalia Health, Inc.	Ronceverte, WV	122	January 1, 2023
Plateau Medical Center	Vandalia Health, Inc.	Oak Hill, WV	25	April 1, 2023
Medical Center of South Arkansas	SARH Holdings, Inc.	El Dorado, AR	166	July 1, 2023
Lutheran Rehabilitation Hospital	Select Medical Corporation	Fort Wayne, IN	36	September 1, 2023
2022 Divestiture:				
AllianceHealth Seminole	SSM HealthCare of Oklahoma, Inc.	Seminole, OK	32	July 1, 2022

In addition to hospitals divested in 2022 and in 2023, we have entered into definitive agreements to sell a total of seven hospitals where the divestiture has not yet been completed. The following sets forth such definitive agreements:

- On February 28, 2023, we entered into a definitive agreement for the sale of substantially all of the assets of Lake Norman Regional Medical Center (123 licensed beds) in Mooresville, North Carolina, and Davis Regional Medical Center (144 licensed beds) in Statesville, North Carolina, to Novant Health, Inc.
- On July 24, 2023, we entered into a definitive agreement for the sale of substantially all of the assets of Bravera Health Brooksville (120 licensed beds) in Brooksville, Florida, Bravera Health Seven Rivers (128 licensed beds) in Crystal River, Florida, and Bravera Health Spring Hill (124 licensed beds) in Spring Hill, Florida, to Florida Health Sciences Center, Inc., and certain of its affiliates.
- On August 4, 2023, we entered into a definitive agreement for the sale of AllianceHealth Ponca City (140 licensed beds) in Ponca City, Oklahoma, and the operating assets of AllianceHealth Woodward (87 licensed beds) in Woodward, Oklahoma to INTEGRIS Health, Inc. During the three months ended December 31, 2022, we notified the lessor of AllianceHealth Woodward that we will not renew the lease that expires effective December 1, 2023. The lessor has subsequently selected INTEGRIS Health, Inc. as the new leaseholder and operator.

There can be no assurance that these potential divestitures subject to definitive agreements will be completed, or if they are completed, the ultimate timing of the completion of the divestitures.

Moreover, we may give consideration to divesting certain additional hospitals and non-hospital businesses. Generally, these hospitals and non-hospital businesses are not in one of our strategically beneficial services areas, are less complementary to our business strategy and/or have lower operating margins. In addition, we continue to receive interest from potential acquirers for certain of our hospitals and non-hospital businesses. As such, we may sell additional hospitals and/or non-hospital businesses if we consider any such disposition to be in our best interests. We expect proceeds from any such divestitures to be used for general corporate purposes (including potential debt repayments and/or debt repurchases) and capital expenditures.

Overview of Operating Results

Net operating revenues increased from \$3.0 billion for the three months ended September 30, 2022 to \$3.1 billion for the three months ended September 30, 2023. On a same-store basis, net operating revenues for the three months ended September 30, 2023 increased \$150 million.

We had net loss of \$(52) million during the three months ended September 30, 2023, compared to a net income of less than \$1 million for the same period in 2022. Net loss for the three months ended September 30, 2023 included the following:

- an after-tax charge of \$18 million for expense related to government and other legal matters and related costs,
- an after-tax charge of \$5 million for expense related to costs associated with our multi-year initiative to modernize and consolidate technology platforms and associated processes,
- an after-tax charge of \$24 million resulting from a gain related to the sale of a hospital and the impairment of long-lived assets that were idled, disposed or held-for-sale, and
- an after-tax charge of \$1 million for restructuring charges related to the closure of businesses as well as service line closures and consolidations at certain hospitals.

Net income for the three months ended September 30, 2022 included the following:

- an after-tax charge of \$4 million for expense related to government and other legal matters and related costs,
- an after-tax benefit of \$68 million for gain from early extinguishment of debt,
- an after-tax charge of \$37 million for the impairment of long-lived assets of divested or closed businesses based on their estimated fair values, and
- an after-tax charge of \$1 million for restructuring charges related to the closure of businesses as well as service line closures and consolidations at certain hospitals.

Consolidated inpatient admissions for the three months ended September 30, 2023, increased 0.5%, compared to the same period in 2022. Consolidated adjusted admissions for the three months ended September 30, 2023, increased 0.4%, compared to the same period in 2022. Same-store inpatient admissions for the three months ended September 30, 2023, increased 3.7%, compared to the same period in 2022, and same-store adjusted admissions for the three months ended September 30, 2023, increased 4.2%, compared to the same period in 2022.

Net operating revenues increased from \$9.1 billion for the nine months ended September 30, 2022 to \$9.3 billion for the nine months ended September 30, 2023. On a same-store basis, net operating revenues for the nine months ended September 30, 2023 increased \$460 million.

We had a net loss of \$(70) million during the nine months ended September 30, 2023, compared to a net loss of \$(267) million for the nine months ended September 30, 2022. Net loss for the nine months ended September 30, 2023 included the following:

- an after-tax charge of \$26 million for expense related to government and other legal matters and related costs,
- an after-tax charge of \$10 million for expense related to costs associated with our multi-year initiative to modernize and consolidate technology platforms and associated processes,
- an after-tax charge of \$6 million resulting from a loss on the sale of one hospital and impairment of long-lived assets that were idled, disposed or held-for-sale, offset by gains for the sale of three hospitals, and
- an after-tax charge of \$9 million for restructuring charges related to the closure of businesses as well as service line closures and consolidations at certain hospitals.

Net loss for the nine months ended September 30, 2022 included the following:

- an after-tax charge of \$4 million for expense related to government and other legal matters and related costs,
- an after-tax benefit of \$54 million for gain from early extinguishment of debt,
- an after-tax charge of \$42 million for the impairment of long-lived assets of divested or closed businesses based on their estimated fair values, and
- an after-tax charge of \$1 million for restructuring charges related to the closure of businesses as well as service line closures and consolidations at certain hospitals.

Consolidated inpatient admissions for the nine months ended September 30, 2023, increased 0.9%, compared to the same period in 2022. Consolidated adjusted admissions for the nine months ended September 30, 2023, increased 2.4%, compared to the same period in 2022. Same-store inpatient admissions for the nine months ended September 30, 2023, increased 4.4%, compared to the same period in 2022, and same-store adjusted admissions for the nine months ended September 30, 2023, increased 6.1%, compared to the same period in 2022.

Self-pay revenues represented approximately 1.5% and 0.2% of net operating revenues for the three months ended September 30, 2023 and 2022, respectively, and 1.0% and 0.6% for the nine months ended September 30, 2023 and 2022, respectively. The amount of foregone revenue related to providing charity care services as a percentage of net operating revenues was approximately 11.5% and 9.4% for the three months ended September 30, 2023 and 2022, respectively, and 10.8% and 11.7% for the nine months ended September 30, 2023 and 2022, respectively. Direct and indirect costs incurred in providing charity care services as a percentage of net operating revenues was approximately 1.3% and 1.1% for the three months ended September 30, 2023 and 2022, respectively, and 1.2% and 1.3% for the nine months ended September 30, 2023 and 2022, respectively.

Overview of Legislative and Other Governmental Developments

The healthcare industry is subject to changing political, regulatory, and economic influences that may affect our business. In recent years, the U.S. Congress and certain state legislatures have introduced and passed a large number of proposals and legislation affecting the healthcare system, including laws intended to impact access to health insurance and reduce healthcare costs and government spending. The most prominent of these efforts, the Affordable Care Act, affects how healthcare services are covered, delivered and reimbursed, and expanded health insurance coverage through a combination of public program expansion and private sector health insurance reforms. The Affordable Care Act has been, and continues to be, subject to legislative and regulatory changes and court challenges. For example, effective January 1, 2019, the financial penalty associated with the mandate that most individuals enroll in a health insurance plan was effectively eliminated. However, some states have imposed individual health insurance mandates, and other states have explored or offer public health insurance options. To increase access to health insurance during the COVID-19 pandemic, the American Rescue Plan Act of 2021, or the ARPA, enhanced subsidies for individuals eligible to purchase coverage through Affordable Care Act marketplaces. The Inflation Reduction Act, enacted in August 2022, extends these enhanced subsidies through 2025. In addition, in 2020, the Families First Coronavirus Response Act required states to maintain continuous Medicaid enrollment to receive a temporary increase in federal funds for Medicaid expenditures. However, this "continuous coverage" requirement expired on April 1, 2023, which has led to Medicaid coverage disruptions and dis-enrollments of Medicaid enrollees, and the increase in federal funding will be phased out through calendar year 2023. These and other changes and initiatives may impact the number of individuals that elect to obtain public or private health insurance or the scope of such coverage, if purchased.

Of critical importance to us is the potential impact of any changes specific to the Medicaid program, including the funding and expansion provisions of the Affordable Care Act and subsequent legislation or agency initiatives. Historically, the states with the greatest reductions in the number of uninsured adult residents have expanded Medicaid. A number of states have opted out of the Medicaid coverage expansion provisions, but could ultimately decide to expand their programs at a later date. Of the 15 states in which we operated hospitals as of September 30, 2023, nine states have taken action to expand their Medicaid programs. The other six states have not, including Florida, Alabama, Tennessee, Mississippi and Texas, where we operated a significant number of hospitals as of September 30, 2023. Some states use, or have applied to use, waivers granted by CMS to implement expansion, impose different eligibility or enrollment conditions, or otherwise implement programs that vary from federal standards.

Other recent reform initiatives and proposals at the federal and state levels include those focused on price transparency and limiting out-of-network charges, which may impact prices, our competitive position and the relationships between hospitals, insurers, patients, and ancillary providers (such as anesthesiologists, radiologists, and pathologists). For example, the No Surprises Act imposes various requirements on providers and health plans intended to prevent “surprise” medical bills. Among other restrictions and requirements, the law prohibits providers from charging patients an amount beyond the in-network cost sharing amount for services rendered by out-of-network providers, subject to limited exceptions. For services for which balance billing is prohibited (even when no balance billing occurs), the No Surprises Act may limit the amounts received by out-of-network providers from health plans, and also establishes a dispute resolution process for providers and payors to handle payment disputes that cannot be resolved through direct negotiations. Due to various lawsuits invalidating portions of the final rules intended to implement the dispute resolution process, the process has been temporarily suspended for new claims disputes and remains subject to further rulemaking. Additionally, in connection with requirements that providers provide, in advance of the date of the scheduled item or service or upon request, a good faith estimate of expected charges to uninsured or self-pay patients for scheduled items and services, such patients may invoke a patient-provider dispute resolution process established by regulation to challenge charges in certain circumstances.

Other trends toward transparency and value-based purchasing may impact the competitive position and patient volumes of providers. For example, the CMS Care Compare website makes available to the public certain data that hospitals submit in connection with Medicare reimbursement claims, including hospital performance data on quality measures and patient satisfaction. In addition, Medicare reimbursement for hospitals is adjusted based on quality and efficiency measures, and CMS currently administers various accountable care organizations and bundled payment demonstration projects. The CMS Innovation Center has highlighted the need to accelerate the movement to value-based care and drive broader system transformation.

The federal public health emergency declared by United States Department of Health and Human Services, or HHS, as a result of the COVID-19 pandemic expired May 11, 2023, reflecting declines in COVID-19 hospitalization rates in the United States and the evolution of the COVID-19 public health situation from its acute emergency phase. Earlier in the pandemic, federal and state governments passed legislation, promulgated regulations, and took other administrative actions intended to assist healthcare providers in providing care to COVID-19 and other patients during the public health emergency and to provide financial relief. Various stimulus laws, including the Coronavirus Aid, Relief and Economic Security Act, or the CARES Act, and the ARPA, among others, authorized significant funding to be distributed through the Public Health and Social Services Emergency Fund, or the PHSSEF, to eligible healthcare providers. PHSSEF payments were intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and are not required to be repaid, provided that recipients attest to and comply with certain terms and conditions, including audit and reporting requirements.

Among other legislation offering financial relief, Congress temporarily suspended the Medicare sequestration payment adjustment, which would have otherwise reduced payments to Medicare providers by 2% as required by the Budget Control Act of 2011. The sequestration adjustment, which was phased back in during 2022, has been extended through the first six months of 2032. The ARPA, in addition to providing funding for healthcare providers, increased the federal budget deficit in a manner that triggers an additional statutorily mandated sequestration under the Pay-As-You Go Act of 2010. As a result, an additional Medicare spending reduction of up to 4% was required to take effect in January 2022. However, Congress has delayed implementation of this payment reduction until 2025.

We did not receive or recognize any significant level of payments or benefits under the CARES Act and other existing COVID-19 related stimulus and relief legislation during the nine months ended September 30, 2023 and do not expect to receive or recognize any significant level of payments or benefits under the CARES Act and other existing legislation related to COVID-19 in future periods.

Beyond financial assistance, federal and state governments enacted legislation and established regulations intended to temporarily ease legal and regulatory burdens on healthcare providers during the COVID-19 pandemic. These measures, most of which have been reduced or terminated, included temporary relief from Medicare conditions of participation requirements for healthcare providers, temporary relaxation of licensure requirements for healthcare professionals, temporary relaxation of privacy restrictions for telehealth remote communications, promoting use of telehealth by temporarily expanding the scope of services for which Medicare reimbursement is available, and limited waivers of fraud and abuse laws for activities related to COVID-19 during the public health emergency period.

Although the public health emergency declared by HHS as a result of the pandemic has expired as noted above, uncertainty remains regarding the future course of the pandemic and its ultimate impact on our business. Moreover, this expiration of the public health emergency may impact our operations and financial results. We continue to assess the potential impact of various laws, regulations, and guidance related to COVID-19 on our business, results of operations, financial condition and cash flows.

In June 2022, the U.S. Supreme Court ruled in *American Hospital Association v. Becerra*, a case on the 340B Drug Pricing Program that could impact Medicare reimbursement to us, both in respect of past periods and future periods. The 340B program allows certain non-profit healthcare organizations that care for many uninsured and low-income patients to purchase outpatient drugs from pharmaceutical manufacturers at discounted rates. Our hospitals do not participate in the 340B program. In 2018, HHS implemented a payment policy that reduced Medicare payments to 340B hospitals for most drugs obtained at 340B-discounted rates. These payment cuts resulted in increased payments for non-340B hospitals, including our facilities. In *Becerra*, the U.S. Supreme Court determined that HHS unlawfully reduced reimbursement rates for 340B hospitals. On January 10, 2023, the United States District Court for the District of Columbia declined to order HHS to pay 340B hospitals the difference between the rates under the 2018 payment policy and what should have been paid, instead allowing HHS to propose an appropriate remedy to address the underpayments to 340B hospitals that resulted from the policy in past payment years. For calendar year 2023, CMS finalized the payment rate for drugs acquired through the 340B program in light of the U.S. Supreme Court decision and, to achieve budget neutrality in light of the payment rate change, implemented a reduction of approximately 3.1% to payment rates for non-drug services under the outpatient PPS for calendar year 2023. In addition, in July 2023, HHS announced a proposed rule setting forth its proposed remedy for calendar years 2018 through 2022 that would issue \$9 billion in a one-time lump sum payment to affected 340B providers. In order to comply with budget neutrality requirements, HHS proposed a corresponding offset in future non-drug item and service payments for all outpatient PPS providers (except new providers) that will, if finalized, reduce the outpatient PPS conversion factor by 0.5% annually. This adjustment would start in calendar year 2025 and continue for approximately 16 years. This reduction to payment rates for 2023 has adversely affected our results, and the proposed reduction to the outpatient PPS conversion as noted above (if final CMS rules are adopted in a form similar to the proposed rules noted above) is anticipated to adversely impact our results.

As a result of our current levels of cash, available borrowing capacity under the ABL Facility, long-term outlook on our debt repayments, our anticipated continued access to the capital markets (including in connection with the contemplated future refinancing of certain of our notes, as applicable, proceeds from any potential future dispositions of hospitals or other investments such as our minority equity interests in various businesses, as applicable, and the 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 12 months and for the foreseeable future thereafter. We believe there continues to be ample opportunity to strengthen our market share in substantially all of our markets by decreasing the need for patients to travel outside their communities for healthcare. Furthermore, we will continue to strive to improve operating efficiencies and procedures in order to improve the performance of our hospitals.

Sources of Revenue

The following table presents the approximate percentages of net operating revenues by payor source for the periods indicated. The data for the periods presented are not strictly comparable due to the effect that businesses acquired, sold, closed or opened during each of the respective periods, as applicable, have had on these statistics.

	Three Months Ended September 30, 2023		September 30, 2022	
	2023	2022	2023	2022
Medicare	19.7 %	21.3 %	20.2 %	21.3 %
Medicare Managed Care	16.1	15.8	16.8	16.2
Medicaid	14.8	14.9	14.3	15.0
Managed Care and other third-party payors	47.9	47.8	47.7	46.9
Self-pay	1.5	0.2	1.0	0.6
Total	100.0 %	100.0 %	100.0 %	100.0 %

As shown above, we receive a substantial portion of our revenues from the Medicare, Medicare Managed Care, and Medicaid programs. Included in Managed Care and other third-party payors is net operating revenues from insurance companies with which we have insurance provider contracts, insurance companies for which we do not have insurance provider contracts, workers' compensation carriers and non-patient service revenue, such as gain (loss) on investments, rental income and cafeteria sales. We generally expect the portion of revenues received from the Medicare, including Medicare Managed Care, and Medicaid programs to increase over the long-term due to the general aging of the population and other factors, including health reform initiatives. There has been a trend toward increased enrollment in Medicare Managed Care and Medicaid managed care programs, which may adversely affect our net operating revenues. We may also be impacted by regulatory requirements imposed on insurers, such as minimum medical-loss ratios and specific benefit requirements. Furthermore, in the normal course of business, managed care programs,

insurance companies and employers actively negotiate the amounts paid to hospitals. Our relationships with payors may be impacted by price transparency initiatives and out-of-network billing restrictions, including those in the No Surprises Act, which took effect January 1, 2022. There can be no assurance that we will retain our existing reimbursement arrangements or that 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 our standard billing rates. We account for the differences between the estimated program reimbursement rates and our 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 by an insignificant amount in each of the three and nine-month periods ended September 30, 2023 and 2022.

The payment rates under the Medicare program for hospital inpatient and outpatient acute care services are based on prospective payment systems, which depend upon a patient's diagnosis or the clinical complexity of services provided to a patient, among other factors. These rates are indexed for inflation annually, although increases have historically been less than actual inflation. On August 1, 2023, CMS published the final rule to increase this index by 3.3% for hospital inpatient acute care services that are reimbursed under the prospective payment system for federal fiscal year 2024 (which began October 1, 2023). Together with other changes to payment policies, payment rates for hospital inpatient acute care services are expected to increase approximately 3.1%. Hospitals that do not submit required patient quality data are subject to a reduction in payments. We are complying with this data submission requirement. Payments may also be affected by various other adjustments, including those that depend on patient-specific or hospital specific factors. For example, the "two midnight rule" establishes admission and medical review criteria for inpatient services limiting when services to Medicare beneficiaries are payable as inpatient hospital services. Reductions in the rate of increase or overall reductions in Medicare reimbursement may cause a decline in the growth of our net operating revenues.

Payment rates under the Medicaid program vary by state. In addition to the base payment rates for specific claims for services rendered to Medicaid enrollees, several states utilize supplemental reimbursement programs to make separate payments that are not specifically tied to an individual's care, some of which offset a portion of the cost of providing care to Medicaid and indigent patients. These programs are designed with input from CMS and are funded with a combination of state and federal resources, including, in certain instances, fees or taxes levied on the providers. The programs are generally authorized for a specified period of time and require CMS's approval to be extended. We are unable to predict whether or on what terms CMS will extend the supplemental programs in the states in which we operate. Under these supplemental programs, we recognize revenue and related expenses in the period in which amounts are estimable and payment 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.

Results of Operations

Our hospitals and other sites of care offer a broad variety 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. Utilization of services and our results of operations are dependent on a multitude of factors including seasonal fluctuations in demand. Historically, the strongest demand for hospital services generally occurs during the winter months and the weakest demand generally occurs during the summer months.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating results, as a percentage of net operating revenues:				
Net operating revenues	100.0%	100.0%	100.0%	100.0%
Operating expenses (a)	(89.5)	(87.2)	(89.2)	(88.5)
Depreciation and amortization	(4.1)	(4.5)	(4.1)	(4.4)
Impairment and (gain) loss on sale of businesses, net	(0.8)	(1.6)	0.1	(0.6)
Income from operations	5.6	6.7	6.8	6.5
Interest expense, net	(6.8)	(7.2)	(6.7)	(7.1)
Loss (gain) from early extinguishment of debt	—	2.6	—	0.8
Equity in earnings of unconsolidated affiliates	0.1	0.2	0.1	0.1
(Loss) income before income taxes	(1.1)	2.3	0.2	0.3
Provision for income taxes	(0.6)	(2.3)	(1.0)	(3.2)
Net (loss) income	(1.7)	—	(0.8)	(2.9)
Less: Net income attributable to noncontrolling interests	(1.2)	(1.4)	(1.1)	(1.2)
Net loss attributable to Community Health Systems, Inc. stockholders	(2.9)%	(1.4)%	(1.9)%	(4.1)%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Percentage increase (decrease) from prior year:				
Net operating revenues	2.0 %	(2.9)%	2.6 %	(0.7)%
Admissions (b)	0.5	(3.7)	0.9	(2.9)
Adjusted admissions (c)	0.4	3.8	2.4	1.8
Average length of stay (d)	(6.5)	(9.8)	(6.3)	(2.0)
Net loss attributable to Community Health Systems, Inc. stockholders	(116.7)	(137.8)	51.2	(809.6)
Same-store percentage increase (decrease) from prior year (e):				
Net operating revenues	5.1 %	(2.3)%	5.3 %	0.1 %
Admissions (b)	3.7	(2.2)	4.4	(1.3)
Adjusted admissions (c)	4.2	5.2	6.1	3.1

(a)Operating expenses include salaries and benefits, supplies, other operating expenses, and lease cost and rent, net of the reduction in operating expenses resulting from the recognition of pandemic relief funds.

(b)Admissions represents the number of patients admitted for inpatient treatment.

(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)Average length of stay represents the average number of days inpatients stay in our hospitals.

(e)Excludes information for businesses sold or closed during each of the respective periods, as applicable.

Items (b) through (e) are metrics used to manage our performance. These metrics provide useful insight to investors about the volume and acuity of services we provide, which aid in evaluating our financial results.

Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022

Net operating revenues increased to \$3.1 billion for the three months ended September 30, 2023, compared to \$3.0 billion for the same period in 2022. Net operating revenues on a same-store basis from hospitals that were operated throughout both periods increased \$150 million, or 5.1%, during the three months ended September 30, 2023, compared to the same period in 2022. On a period-over-period basis, the increase in net operating revenues was primarily attributable to higher inpatient volumes and increased reimbursement rates partially offset by unfavorable changes in payor mix. Non-same-store net operating revenues decreased \$89 million during the three months ended September 30, 2023, compared to the same period in 2022. On a consolidated basis, inpatient admissions increased by 0.5% and adjusted admissions increased by 0.4% during the three months ended September 30, 2023, compared to the same period in 2022. On a same-store basis, net operating revenues per adjusted admission increased 0.9%, while inpatient admissions increased by 3.7% and adjusted admissions increased by 4.2% for the three months ended September 30, 2023, compared to the same period in 2022.

Operating costs and expenses, as a percentage of net operating revenues, increased from 93.3% during the three months ended September 30, 2022 to 94.4% during the three months ended September 30, 2023. Operating costs and expenses, excluding depreciation and amortization and impairment and (gain) loss on sale of businesses, as a percentage of net operating revenues, increased from 87.2% for the three months ended September 30, 2022 to 89.5% for the three months ended September 30, 2023. Salaries and benefits, as a percentage of net operating revenues, decreased from 44.7% for the three months ended September 30, 2022 to 43.4% for the three months ended September 30, 2023, primarily due to an increase in net operating revenues, partially offset by increased hiring commensurate with lower utilization of contract labor. Supplies, as a percentage of net operating revenues, decreased from 16.3% for the three months ended September 30, 2022 to 15.8% for the three months ended September 30, 2023. Other operating expenses, as a percentage of net operating revenues, increased from 27.4% for the three months ended September 30, 2022 to 27.7% for the three months ended September 30, 2023, primarily due to higher rates paid for outsourced medical specialists and higher costs for supplemental reimbursement programs, partially offset by lower utilization of and rates paid for contract labor. Lease cost and rent, as a percentage of net operating revenues, remained consistent at 2.6% for both of the three-month periods ended September 30, 2023 and 2022. Pandemic relief funds, as a percentage of net operating revenues, were 0.0% for the three months ended September 30, 2023, compared to (3.8)% for the same period in 2022.

Depreciation and amortization, as a percentage of net operating revenues, decreased to 4.1% for the three months ended September 30, 2023 from 4.5% for the three months ended September 30, 2022, primarily due to an increase in net operating revenues.

Impairment and (gain) loss on sale of businesses, net was \$26 million for the three months ended September 30, 2023, compared to \$47 million for the same period in 2022. The expense in both 2023 and 2022 related primarily to divestiture activity during the respective period as discussed more specifically under "Acquisition, Divestiture and Closure Activity" herein.

Interest expense, net, decreased by \$9 million to \$208 million for the three months ended September 30, 2023, compared to \$217 million for the same period in 2022 due primarily to financing activities in 2022.

There was no loss (gain) from early extinguishment of debt recognized during the three months ended September 30, 2023. A gain from early extinguishment of debt of \$78 million was recognized during the three months ended September 30, 2022 as a result of open market repurchases of certain of our outstanding notes completed during the three months ended September 30, 2022.

Equity in earnings of unconsolidated affiliates, as a percentage of net operating revenues, was (0.1)% for the three-month period ended three months ended September 30, 2023, compared to (0.2)% for the same period in 2022.

The net results of the above-mentioned changes resulted in (loss) income before income taxes decreasing \$103 million to a loss of \$(33) million for the three months ended September 30, 2023 from income of \$70 million for the three months ended September 30, 2022.

Our provision for income taxes for the three months ended September 30, 2023 and 2022 was \$19 million and \$70 million, respectively, and the effective tax rates were (57.6)% and 100.0% for the three months ended September 30, 2023 and 2022, respectively. The decrease in the provision for income taxes for the three months ended September 30, 2023, compared to the same period in 2022 was due to a decrease in non-deductible interest for the three months ended September 30, 2023 compared to the same period in 2022. The difference in our effective tax rate for the year ended September 30, 2023, compared to the same period in 2022 was due to the aforementioned decrease in the provision for income taxes and the decrease in income before taxes.

Net (loss) income, as a percentage of net operating revenues, was (1.7)% for the three months ended September 30, 2023, compared to 0.0% for the same period in 2022.

Net income attributable to noncontrolling interests as a percentage of net operating revenues was 1.2% for the three months ended September 30, 2023, compared to 1.4% for the three months ended September 30, 2022.

Net loss attributable to Community Health Systems, Inc. stockholders was \$(91) million for the three months ended September 30, 2023, compared to \$(42) million for the same period in 2022.

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

Net operating revenues increased to \$9.3 billion for the nine months ended September 30, 2023, compared to \$9.1 billion for the same period in 2022. Net operating revenues on a same-store basis from hospitals that were operated throughout both periods increased \$460 million, or 5.3%, during the nine months ended September 30, 2023, compared to the same period in 2022. On a period-over-period basis, the increase in net operating revenues was primarily attributable to higher inpatient and outpatient volumes, increased reimbursement rates, higher acuity and an increase in non-patient revenue, partially offset by unfavorable changes in payor mix. Non-same-store net operating revenues decreased \$221 million during the nine months ended September 30, 2023, compared to the same period in 2022. On a consolidated basis, inpatient admissions increased by 0.9% and adjusted admissions increased by 2.4% during the nine months ended September 30, 2023, compared to the same period in 2022. On a same-store basis, net operating revenues per adjusted admission decreased 0.8%, while inpatient admissions increased by 4.4% and adjusted admissions increased by 6.1% for the nine months ended September 30, 2023, compared to the same period in 2022.

Operating costs and expenses, as a percentage of net operating revenues, decreased from 93.5% during the nine months ended September 30, 2022 to 93.2% during the nine months ended September 30, 2023. Operating costs and expenses, excluding depreciation and amortization and impairment and (gain) loss on sale of businesses, as a percentage of net operating revenues, increased from 88.5% during the nine months ended September 30, 2022 to 89.2% during the nine months ended September 30, 2023. Salaries and benefits, as a percentage of net operating revenues, decreased from 43.8% for the nine months ended September 30, 2022 to 43.4% for the nine months ended September 30, 2023, primarily due to an increase in net operating revenues, partially offset by increased hiring commensurate with lower utilization of contract labor. Supplies, as a percentage of net operating revenues, decreased from 16.3% for the nine months ended September 30, 2022 to 16.1% for the nine months ended September 30, 2023. Other operating expenses, as a percentage of net operating revenues, decreased from 27.7% for the nine months ended September 30, 2022 to 27.1% for the nine months ended September 30, 2023, primarily due to an increase in net operating revenues and lower utilization of and rates paid for contract labor, offset by higher costs for professional liability insurance and higher rates paid for outsourced medical specialists. Lease cost and rent, as a percentage of net operating revenues, remained consistent at 2.6% for both of the nine-month periods ended September 30, 2023 and 2022. Pandemic relief funds, as a percentage of net operating revenues, were 0.0% for the nine months ended September 30, 2023, compared to (1.9)% for the same period in 2022.

Depreciation and amortization, as a percentage of net operating revenues, decreased to 4.1% for the nine months ended September 30, 2023 from 4.4% for the nine months ended September 30, 2022.

Impairment and (gain) loss on sale of businesses, net was a gain of \$9 million for the nine months ended September 30, 2023, compared to expense of \$54 million for the same period in 2022. The gain in 2023 and the expense in 2022 related primarily to divestiture activity during each respective period as discussed more specifically under "Acquisition, Divestiture and Closure Activity" herein.

Interest expense, net, decreased by \$31 million to \$621 million for the nine months ended September 30, 2023, compared to \$652 million for the same period in 2022 due primarily to financing activities in 2022.

There was no loss (gain) from early extinguishment of debt recognized during the nine months ended September 30, 2023, compared to a gain from early extinguishment of debt of \$73 million in the same period in 2022 as a result of financing activities during the nine months ended September 30, 2022.

Equity in earnings of unconsolidated affiliates, as a percentage of net operating revenues, was (0.1)% for both of the nine-month periods ended September 30, 2023 and 2022.

The net results of the above-mentioned changes resulted in income before income taxes decreasing \$10 million to \$14 million for the nine months ended September 30, 2023 from \$24 million for the nine months ended September 30, 2022.

Our provision for income taxes for the nine months ended September 30, 2023 and 2022 was \$84 million and \$291 million, respectively, and the effective tax rates were 600.0% and 1,212.5% for the nine months ended September 30, 2023 and 2022, respectively. The decrease in the provision for income taxes for the nine months ended September 30, 2023, compared to the same period in 2022 was due to a decrease in non-deductible interest for the nine months ended September 30, 2023 compared to the same period in 2022. The difference in our effective tax rate for the year ended September 30, 2023, compared to the same period in 2022 was due to the aforementioned decrease in the provision for income taxes and the increase in income before taxes.

Net loss, as a percentage of net operating revenues, was (0.8)% for the nine months ended September 30, 2023, compared to (2.9)% for the same period in 2022.

Net income attributable to noncontrolling interests as a percentage of net operating revenues was 1.1% for the nine months ended September 30, 2023, compared to 1.2% for the same period in 2022.

Net loss attributable to Community Health Systems, Inc. stockholders was \$(180) million for the nine months ended September 30, 2023, compared to \$(369) million for the same period in 2022.

Liquidity and Capital Resources

Net cash provided by operating activities decreased \$171 million, from approximately \$291 million for the nine months ended September 30, 2022, to approximately \$120 million for the nine months ended September 30, 2023. The decrease in cash provided by operating activities is partially the result of the payment of accumulated benefits under the Company's supplemental executive retirement plan, or SERP. Because securities are held in a rabbi trust to be used for the payment of SERP benefits, the aforementioned cash outflow is offset by inflows from sales of investments, which are reflected as a cash inflow from investing activities as noted below. Cash paid for interest was \$583 million during the nine months ended September 30, 2023, compared to \$614 million for the same period in 2022. Cash paid for income taxes, net of refunds received, resulted in a net payment of \$61 million and \$6 million during the nine months ended September 30, 2023 and 2022, respectively.

Net cash used in investing activities was approximately \$206 million for the nine months ended September 30, 2023, compared to approximately \$207 million for the same period in 2022, a decrease of \$1 million. Net cash used in investing activities during the nine months ended September 30, 2023 was primarily impacted by an increase of \$106 million in cash from the net impact of the purchases and sales of available-for-sale debt and equity securities, including securities sold to pay SERP benefits as noted above, an increase of \$120 million in cash proceeds from dispositions of hospitals and other ancillary operations, an increase of \$26 million in cash paid for acquisitions of facilities and other related businesses, an increase of \$73 million in cash used for the purchase of property and equipment, an increase of \$12 million in cash used to purchase other investments, a decrease of \$3 million in cash proceeds from the sale of property and equipment, a decrease of \$10 million in cash used to purchase investments in unconsolidated affiliates, and a decrease resulting from \$121 million in cash representing our share of proceeds from the sale of a majority interest in CoreTrust Holdings, LLC by Healthtrust Purchasing Group, L.P., a group purchasing organization in which we are a noncontrolling partner, distributed during the three months ended September 30, 2022.

Our net cash provided by financing activities was approximately \$59 million for the nine months ended September 30, 2023, compared to net cash used in financing activities of approximately \$291 million for the same period in 2022, a change of \$350 million. This was primarily due to the net effect of our debt borrowings and repayments during the nine months ended September 30, 2023, compared to the same period in 2022.

Liquidity

Net working capital was approximately \$1.1 billion at September 30, 2023 and \$896 million at December 31, 2022. Net working capital increased by approximately \$203 million between December 31, 2022 and September 30, 2023. The increase is primarily due to the increase in other current assets and prepaid expenses and taxes as well as decreases in accounts payable, current operating lease liabilities and accrued liabilities for employee compensation during the nine months ended September 30, 2023, partially offset by a decrease in supplies and an increase in other accrued liabilities and current maturities of long-term debt.

In addition to cash flows from operations, available sources of capital include amounts available under the asset-based loan (ABL) credit agreement, or the ABL Credit Agreement, and anticipated access to public and private debt markets as well as proceeds from the disposition of hospitals or other investments such as our minority equity interests in various businesses, as applicable.

Pursuant to the ABL Credit Agreement, the lenders have extended to CHS/Community Health Systems, Inc., or CHS, a revolving asset-based loan facility, or ABL Facility. The maximum aggregate amount under the ABL Facility is \$1.0 billion, subject to borrowing base capacity. At September 30, 2023, we had outstanding borrowings of \$230 million and approximately \$679 million of additional borrowing capacity (after taking into consideration \$82 million of outstanding letters of credit) under the ABL Facility. The issued letters of credit were primarily in support of potential insurance-related claims and certain bonds. Principal amounts outstanding under the ABL Facility, if any, will be due and payable in full on November 22, 2026.

Additional Liquidity Information

Our ability to meet the restricted covenants and financial ratios and tests in the ABL Facility and the indentures governing our outstanding notes 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 the ABL Facility and/or the indentures that govern our outstanding notes. Upon the occurrence of an event of default under the ABL Facility or indentures that govern our outstanding notes, all amounts outstanding under the ABL Facility and the indentures that govern our outstanding notes may become immediately due and payable and all commitments under the ABL Facility to extend further credit may be terminated.

As of September 30, 2023, approximately \$22 million of our outstanding debt of approximately \$11.8 billion is due within the next 12 months.

Net proceeds from divestitures, if any, are expected to be used for general corporate purposes (including potential debt repayments and/or debt repurchases) and capital expenditures.

Ongoing negative economic conditions may negatively impact our service mix, revenue mix, payor mix and patient volumes, as well as our ability to collect outstanding receivables. Any material increase in our billing cycles or deterioration in the collectability of our accounts receivable would adversely affect our cash flows and results of operations and may require an increased level of working capital.

We believe that internally generated cash flows and current levels of availability for additional borrowing under the ABL Facility, our anticipated continued access to the capital markets, and the use of proceeds from any potential future dispositions as noted above, will be sufficient to finance acquisitions, capital expenditures, working capital requirements, and any debt repurchases or other debt repayments we may elect to make or be required to make through the next 12 months and the foreseeable future thereafter. However, ongoing negative economic conditions (including inflationary conditions and elevated interest rate levels) have resulted in, and may continue to result in, significant disruptions of financial and capital markets, which could reduce our ability to access capital and negatively affect our liquidity in the future. Moreover, we do not expect to receive or recognize any significant level of payments or benefits under the CARES Act and other existing legislation in future periods.

We may elect from time to time to purchase our outstanding debt in open market purchases, privately negotiated transactions or otherwise. Any such debt repurchases will depend upon prevailing market conditions, our liquidity requirements, contractual restrictions, applicable securities law requirements and other factors.

There have been no material changes outside of the ordinary course of business to our upcoming cash obligations during the nine months ended September 30, 2023, from those disclosed under "Capital Resources" in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K filed with the SEC on February 17, 2023, or 2022 Form 10-K.

Capital Resources

Cash expenditures for purchases of facilities and other related businesses were approximately \$35 million for the nine months ended September 30, 2023, compared to \$9 million for the same period in 2022. Our expenditures for the nine months ended September 30, 2023 and 2022 were primarily related to physician practices, clinics, ambulatory surgery centers and other ancillary businesses, including the purchase of certain assets from American Physician Partners as discussed in Note 3 of the Notes to the Condensed Consolidated Financial Statements included under Part I, Item 1 of this Form 10-Q.

Excluding the cost to construct replacement and de novo hospitals, our cash expenditures for routine capital for the nine months ended September 30, 2023 totaled \$352 million compared to \$231 million in 2022. These capital expenditures related primarily to the purchase of additional equipment, minor renovations and information systems infrastructure. Costs to construct replacement hospitals totaled \$1 million and \$14 million for the nine months ended September 30, 2023 and 2022, respectively. During the nine months ended September 30, 2023 and 2022, we also had cash expenditures of \$4 million and \$39 million, respectively, that represent both planning and construction costs primarily for de novo hospitals.

Pursuant to a hospital purchase agreement from our March 1, 2016 acquisition of Northwest Health - Starke, formerly known as Starke Hospital, we committed to build a replacement facility in Knox, Indiana. Construction of the replacement facility for Northwest Health - Starke is required to be completed within five years of the date we enter into a new lease with Starke County, Indiana, the hospital lessor, or in the event we do not enter into a new lease with Starke County, construction shall be completed by September 30, 2026. We have not entered into a new lease with the lessor for Northwest Health - Starke.

Reimbursement, Legislative and Regulatory Changes

Ongoing legislative and regulatory efforts, and judicial interpretations, could reduce or otherwise adversely affect the payments we receive from Medicare and Medicaid and other payors. Within the statutory framework of the Medicare and Medicaid programs, there are substantial areas subject to administrative rulings, interpretations and discretion, and which are at times subject to court challenges, which may further affect payments made under those programs. Further, the federal and state governments might, in the future, reduce the funds available under those programs, require repayment of previously received funds 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 be adversely impacted. We cannot estimate the impact of Medicare and Medicaid reimbursement changes that have been enacted or are currently or may in the future be under consideration. We cannot predict whether additional reimbursement reductions will be made or whether any such changes or other restructuring of the financing and delivery of healthcare would have a material adverse effect on our business, financial conditions, results of operations, cash flow, capital resources and liquidity.

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 accounting principles generally accepted in the United States of America, or 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 policies that involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on the financial condition or results of operations of the registrant. We believe that our critical accounting policies are limited to those described below. The following information should be read in conjunction with our significant accounting policies included in Note 1 of the Notes to the Consolidated Financial Statements included under Part II, Item 8 of our 2022 Form 10-K.

Revenue Recognition

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. Explicit price concessions are recorded for contractual allowances that are calculated and recorded through a combination of internally- and externally-developed data collection and analysis tools to automate the monthly estimation of required contractual allowances. Within these automated systems, payors' historical paid claims data and contracted amounts are utilized to calculate the contractual allowances. This data is 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 is one component of the deductions from gross revenues to arrive at net operating revenues. 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, historical paid claims data and, when applicable, application of the expected managed care plan reimbursement based on contract terms.

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 September 30, 2023 from our estimated reimbursement percentage, net loss for the nine months ended September 30, 2023 would have changed by approximately \$97 million, and net accounts receivable at September 30, 2023 would have changed by \$125 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 by an insignificant amount for the three and nine-month periods ended September 30, 2023 and 2022.

Patient Accounts Receivable

Substantially all of our accounts receivable are related to providing healthcare services to patients at our hospitals and affiliated businesses. 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. 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 any adjustments to the transaction price for implicit price concessions 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. Our ability to estimate the transaction price and any implicit price concessions is not impacted by not utilizing an aging of our net accounts receivable as we believe that substantially all of the risk exists at the point in time such accounts are identified as self-pay. 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.

Patient accounts receivable can be impacted by the effectiveness of our collection efforts and, as described in our significant accounting policies included in Note 1 of the Notes to Condensed Consolidated Financial Statements included under Part I, Item 1 of this Form 10-Q, numerous factors may affect the net realizable value of accounts receivable. If the actual collection percentage differed by 1% at September 30, 2023 from our estimated collection percentage as a result of a change in expected recoveries, net loss for the nine months ended September 30, 2023 would have changed by \$37 million, and net accounts receivable at September 30, 2023 would have changed by \$47 million. We also continually review our overall reserve adequacy by monitoring historical cash collections as a percentage of trailing net operating revenues, as well as by analyzing current period net operating revenues and admissions by payor classification, 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.

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 \$1.7 billion at both September 30, 2023 and December 31, 2022, being pursued by various outside collection agencies. We expect to collect less than 4%, 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 accounts receivable. Collections on amounts previously written-off are recognized as a recovery of net operating revenues when received. However, we take into consideration estimated collections of these future amounts written-off in determining the implicit price concessions used to measure the transaction price for the applicable portfolio of patient accounts receivable.

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

Patient accounts receivable from our hospitals represent approximately 98% of our total consolidated accounts receivable.

Days revenue outstanding, adjusted for the impact of receivables for state Medicaid supplemental payment programs and divested facilities, was 60 days at September 30, 2023 and 56 days at December 31, 2022.

Total gross accounts receivable (prior to allowance for contractual adjustments and implicit price concessions) was approximately \$16.9 billion and \$15.9 billion as of September 30, 2023 and December 31, 2022, respectively. The approximate percentage of total gross accounts receivable (prior to allowance for contractual adjustments and implicit price concessions) summarized by aging categories is as follows:

As of September 30, 2023:

Payor	% of Gross Receivables			
	0 - 90 Days	90 - 180 Days	180 - 365 Days	Over 365 Days
Medicare	11 %	1 %	1 %	— %
Medicare Managed Care	16 %	3 %	3 %	2 %
Medicaid	7 %	2 %	1 %	1 %
Managed Care and other third-party payors	17 %	3 %	3 %	2 %
Self-Pay	7 %	5 %	7 %	8 %

As of December 31, 2022:

Payor	% of Gross Receivables			
	0 - 90 Days	90 - 180 Days	180 - 365 Days	Over 365 Days
Medicare	11 %	1 %	— %	— %
Medicare Managed Care	15 %	3 %	3 %	1 %
Medicaid	7 %	1 %	1 %	1 %
Managed Care and other third-party payors	18 %	3 %	3 %	2 %
Self-Pay	7 %	6 %	8 %	9 %

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

	September 30, 2023	December 31, 2022
Insured receivables	72.5 %	69.5 %
Self-pay receivables	27.5	30.5
Total	100.0 %	100.0 %

The combined total at our hospitals and clinics for the estimated implicit price concessions for self-pay accounts receivable and allowances for other self-pay discounts and contractals, as a percentage of gross self-pay receivables, was approximately 90% and 91% at September 30, 2023 and December 31, 2022, respectively. If the receivables that have been written-off, but where collections are still being pursued by outside collection agencies, were included in both the allowances and gross self-pay receivables specified above, the percentage of combined allowances to total self-pay receivables would have been 93% at both September 30, 2023 and December 31, 2022.

Goodwill

At September 30, 2023, we had approximately \$3.9 billion of goodwill recorded, all of which resides at our hospital operations reporting unit. Goodwill represents the excess of the fair value of the consideration conveyed in an acquisition over the fair value of net assets acquired. 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. We performed our last annual goodwill impairment evaluation during the fourth quarter of 2022 using the October 31, 2022 measurement date, which indicated no impairment.

The determination of fair value in our goodwill impairment analysis is based on an estimate of fair value for the hospital operations 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 our common stock and fair value of our long-term debt, our recent financial results, estimates of future revenue and expense growth, estimated market multiples, expected capital expenditures, income tax rates, costs of invested capital and a discount rate.

Future estimates of fair value could be adversely affected if the actual outcome of one or more of the assumptions described above changes materially in the future, including as a result of any decline in or increased volatility of our stock price and the fair value of our long-term debt, lower than expected hospital volumes and/or net operating revenues, higher market interest rates, increased operating costs or other adverse impacts on our financial results. Such changes impacting the calculation of our fair value could result in a material impairment charge in the future.

Professional Liability Claims

As part of our business of providing healthcare services, 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 the life of the Company. As discussed below, since we purchase excess insurance on a claims-made basis that transfers risk to third-party insurers, the estimated liability for professional and general liability claims 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.

The net present value of the projected payments was discounted using a weighted-average risk-free rate of approximately 3.8% at both September 30, 2023 and December 31, 2022. This liability is adjusted for new claims information in the period such information becomes known to us. Professional liability expense includes the losses resulting from professional liability claims and loss adjustment expense, as well as excess insurance premiums, and is presented within other operating expenses in the accompanying condensed consolidated statements of loss.

Our processes for obtaining and analyzing claims and incident data are standardized across all of our businesses 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 three and four 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 approximately 1% 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 and geography. 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. 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. Significant assumptions are made on the basis of the aforementioned information in estimating reserves for incurred but not reported claims. A 1% change in assumptions for either severity or frequency as of September 30, 2023 would have increased or decreased the reserve between \$5 million to \$15 million.

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 reserve data or the trends and factors that influence reserve 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 historically produced reliably determinable estimates of ultimate paid losses. Management considers any changes in the amount and pattern of its historical paid losses up through the most recent reporting period to identify any fundamental shifts or trends in claim development experience in determining the estimate of professional liability claims. However, due to the subjective nature of this estimate and the impact that previously unforeseen shifts in actual claim experience can have, future estimates of professional liability could be adversely impacted when actual paid losses develop unexpectedly based on assumptions and settlement events that were not previously known or anticipated.

We are primarily self-insured for professional liability 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 and before June 1, 2018 are self-insured up to \$10 million per claim. Substantially all claims reported on or after June 1, 2018 are self-insured up to \$15 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 reported on or after January 1, 2008, up to \$195 million per occurrence and in the aggregate for claims reported on or after June 1, 2010, and up to at least \$215 million per occurrence and in the aggregate for claims reported on or after June 1, 2015. In addition, for integrated occurrence professional liability claims, there is an additional \$50 million of excess coverage for claims reported on or after June 1, 2014 and an additional \$75 million of excess coverage for claims reported on or after June 1, 2015 through June 1, 2020. The \$75 million in integrated occurrence coverage will also apply to claims reported between June 1, 2020 and June 1, 2024 for events that occurred prior to June 1, 2020 but which were not previously known or reported. 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. Beginning June 1, 2018, this drop-down provision in the excess policies attaches over the \$15 million per claim self-insured retention.

There were no significant changes in our estimate of the reserve for professional liability claims during the nine months ended September 30, 2023.

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 \$32 million at September 30, 2023. A total of \$2 million of interest and penalties is included in the amount of liability for uncertain tax positions at September 30, 2023. It is our policy to recognize interest and penalties related to unrecognized benefits in our 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, we do not anticipate the change will have a material impact on our consolidated results of operations or consolidated financial position.

Our federal income tax return for the 2014, 2015 and 2018 tax years are under examination by the Internal Revenue Service. We believe the result of this examination will not be material to our consolidated results of operations or consolidated financial position. In addition, we have extended our federal statute of limitations through June 30, 2024 for the tax period ended December 31, 2018.

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. 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. A number of factors could affect the future results of the Company or the healthcare industry generally and could cause the Company’s expected results to differ materially from those expressed in this Form 10-Q. These factors include, among other things:

- general economic and business conditions, both nationally and in the regions in which we operate, including the current negative macroeconomic conditions, ongoing inflationary pressures that have significantly increased and may continue to significantly increase our expenses, the current high interest rate environment, ongoing challenging labor market conditions and labor shortages, geopolitical instability, including the current and/or potential future adverse impact of such economic conditions and other factors on our net operating revenues (including our service mix, revenue mix, payor mix and/or patient volumes) and our ability to collect outstanding receivables, as well as the potential impact on us of financial and capital market instability and/or disruptions to the banking system due to bank failures and other factors, including any potential impact on our ability to access and or obtain the return of cash and cash equivalents, and/or our ability to access credit, liquidity and capital market sources on acceptable terms or at all;
- the impact of current or future federal and state health reform initiatives, including the Affordable Care Act, and the potential for changes to the Affordable Care Act, its implementation or its interpretation (including through executive orders and court challenges);
- the extent to and manner in which states support increases, decreases or changes in Medicaid programs, implement health insurance exchanges or alter the provision of healthcare to state residents through legislation, regulation or otherwise;
- the future and long-term viability of health insurance exchanges and potential changes to the beneficiary enrollment process;
- risks associated with our substantial indebtedness, leverage and debt service obligations, including our ability to refinance such indebtedness on acceptable terms or to incur additional indebtedness, and our ability to remain in compliance with debt covenants;
- demographic changes;
- changes in, or the failure to comply with, federal, state or local laws or governmental regulations affecting our business;
- potential adverse impact of known and unknown legal, regulatory and governmental proceedings and other loss contingencies, including governmental investigations and audits, and federal and state false claims act litigation;
- our ability, where appropriate, to enter into and maintain provider arrangements with payors and the terms of these arrangements, which may be further affected by the increasing consolidation of health insurers and managed care companies and vertical integration efforts involving payors and healthcare providers;
- changes in, or the failure to comply with, contract terms with payors and changes in reimbursement policies or rates paid by federal or state healthcare programs or commercial payors;
- any security breaches, cyber-attacks, loss of data, other cybersecurity threats or incidents, and any actual or perceived failures to comply with legal requirements governing the privacy and security of health information or other regulated, sensitive or confidential information, or legal requirements regarding data privacy or data protection;
- any potential impairments in the carrying value of goodwill, other intangible assets, or other long-lived assets, or changes in the useful lives of other intangible assets;
- changes in inpatient or outpatient Medicare and Medicaid payment levels and methodologies;
- the effects related to the implementation of the sequestration spending reductions pursuant to both the Budget Control Act of 2011 and the Pay-As-You-Go Act of 2010 and the potential for future deficit reduction legislation;
- increases in the amount and risk of collectability of patient accounts receivable, including decreases in collectability which may result from, among other things, self-pay growth and difficulties in recovering payments for which patients are responsible, including co-pays and deductibles;
- the efforts of insurers, healthcare providers, large employer groups and others to contain healthcare costs, including the trend toward value-based purchasing;

- the impact of competitive labor market conditions and the shortage of nurses, including in connection with our ability to hire and retain qualified nurses, physicians, other medical personnel and key management, and increased labor expenses as a result of such competitive labor market conditions, inflation and competition for such positions;
- the inability of third parties with whom we contract to provide hospital-based physicians and the effectiveness of our efforts to mitigate such non-performance including through acquisitions of outsourced medical specialist businesses, engagement with new or replacement providers, employment of physicians and re-negotiation or assumption of existing contracts;
- any failure to obtain medical supplies or pharmaceuticals at favorable prices;
- liabilities and other claims asserted against us, including self-insured professional liability claims;
- competition;
- trends toward treatment of patients in less acute or specialty healthcare settings, including ambulatory surgery centers or specialty hospitals or via telehealth;
- changes in medical or other technology;
- any failure of our ongoing process of redesigning and consolidating key business functions, including through the implementation of a new core enterprise resource planning system, to proceed as expected or to be completed successfully;
- changes in U.S. GAAP;
- the availability and terms of capital to fund any additional acquisitions or replacement facilities or other capital expenditures;
- our ability to successfully make acquisitions or complete divestitures, our ability to complete any such acquisitions or divestitures on desired terms or at all, the timing of the completion of any such acquisitions or divestitures, and our ability to realize the intended benefits from any such acquisitions or divestitures;
- the impact that changes in our relationships with joint venture or syndication partners could have on effectively operating our hospitals or ancillary services or in advancing strategic opportunities;
- our ability to successfully integrate any acquired hospitals and/or outpatient facilities, or to recognize expected synergies from acquisitions;
- the impact of severe weather conditions and climate change, as well as the timing and amount of insurance recoveries in relation to severe weather events;
- our ability to obtain adequate levels of insurance, including cyber, general liability, professional liability, and directors and officers liability insurance;
- timeliness of reimbursement payments received under government programs;
- effects related to pandemics, epidemics, or outbreaks of infectious diseases, including the impact of any future developments related to COVID-19 and the COVID-19 pandemic on our business, results of operations, financial condition, and/or cash flows;
- any failure to comply with our obligations under license or technology agreements;
- challenging economic conditions in non-urban communities in which we operate;
- the concentration of our revenue in a small number of states;
- our ability to realize anticipated cost savings and other benefits from our current strategic and operational cost savings initiatives;
- any changes in or interpretations of income tax laws and regulations; and
- the risk factors set forth in our 2022 Form 10-K and our other filings filed with the SEC.

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 our control. Accordingly, we cannot give any assurance that our expectations will in fact occur, and we caution 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. We undertake 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

During the three months ended September 30, 2023, there have been no material changes in the quantitative and qualitative disclosures set forth in Item 7A. Quantitative and Qualitative Disclosures about Market Risk in our 2022 Form 10-K.

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, 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 included in this report has been 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 included in this report was accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There have been no changes in our internal control over financial reporting during the three months ended September 30, 2023 that have materially affected or are reasonably likely to materially affect our internal controls 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, CMS, the U.S. Department of Justice and other government entities regarding various Medicare and Medicaid issues. In addition, we are subject to other claims and lawsuits arising in the ordinary course of our business including lawsuits and claims related to billing and collection practices at our hospitals. Based on current knowledge, management does not believe that loss contingencies arising from pending legal, regulatory and governmental matters, including the matters described herein, will have a material adverse effect on the consolidated financial position or liquidity of the Company. However, in light of the inherent uncertainties involved in pending legal, regulatory and governmental matters, some of which are beyond our control, and the very large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to our results of operations or cash flows for any particular reporting period. 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 FCA may be pending but placed under seal by the court to comply with the FCA’s requirements for filing such suits. In September 2014, the Criminal Division of the U.S. Department of Justice announced that all qui tam cases will be shared with their Division to determine if a parallel criminal investigation should be opened. The Criminal Division has also frequently stated an intention to pursue corporations in criminal prosecutions, including in its most recent Memorandum dated September 15, 2022. 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 CMS and the Office of 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 certain legal proceedings 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, we believe that the following discussion of these matters may provide useful information to security holders. This discussion does not include claims and lawsuits covered by medical malpractice, general liability or employment practices insurance and risk retention programs, none of which claims or lawsuits would in any event be required to be disclosed in this Part II, Item 1 under SEC rules.

Shareholder Litigation

Caleb Padilla, individually and on behalf of all others similarly situated v. Community Health Systems, Inc., Wayne T. Smith, Larry Cash, and Thomas J. Aaron. This purported federal securities class action was filed in the United States District Court for the Middle District of Tennessee on May 30, 2019. It seeks class certification on behalf of purchasers of our common stock between February 20, 2017 and February 27, 2018 and alleges misleading statements resulted in artificially inflated prices for our common stock. On November 20, 2019, the District Court appointed Arun Bhattacharya and Michael Gaviria as lead plaintiffs in the case. The lead plaintiffs filed a consolidated class complaint on January 21, 2020. The Company filed a motion to dismiss the consolidated class complaint on March 23, 2020, and the District Court denied that motion on August 17, 2022. We have reached a tentative settlement of this matter, which was preliminarily approved by the District Court on May 31, 2023. The Court granted final approval of the settlement on October 13, 2023.

Padilla Derivative Litigation. Four purported shareholder derivative cases have been filed in two District Courts relating to the factual allegations in the Padilla litigation; three of these cases have been consolidated in *In re Community Health Systems, Inc. Shareholder Derivative Litigation* and are pending in the United States District Court for the District of Delaware; namely, *Faisal Hussain v. Wayne T. Smith, et al*, filed August 12, 2019; *Susheel Tanjavor v. Wayne T. Smith, et al.*, filed August 29, 2019; and *Kevin Aronson v. Wayne T. Smith, et al*, filed April 29, 2020. The fourth case, *Roger Trombley v. Wayne T. Smith, et al*, filed August 20, 2019, is pending in the United States District Court for the Middle District of Tennessee. All four cases seek relief derivatively and on behalf of Community Health Systems, Inc. against certain Company officers and directors based on alleged breaches of fiduciary duty, unjust enrichment, and other acts related to certain Company disclosures in 2017 and 2018 regarding the Company’s adoption of Accounting Standards Update 2014-09, which the Company adopted effective January 1, 2018. Both cases are currently stayed by court order until the United States District Court for the Middle District of Tennessee rules on the defendants’ motion for summary judgment, which has yet to be filed, in the *Padilla* action. We have reached a tentative settlement of these cases, which will be subject to final approval by the District Court.

Qui Tam Litigation

U.S. ex rel Larry Bomar v. Bayfront HMA Medical Center, LLC, et al – On September 14, 2017, our former hospital in St. Petersburg, Florida received a civil investigative demand, or CID, from the United States Department of Justice for information concerning its historic participation in the Florida Low Income Pool Program. The Low Income Pool Program, or LIP, is a funding pool to support healthcare providers that provide uncompensated care to Florida residents who are uninsured or underinsured. The CID sought documentation related to agreements between the hospital and Pinellas County. On June 13, 2019, an additional ten of our affiliated hospitals in Florida received CIDs related to the same subject matter, along with two CIDs addressed to our affiliated management company and the Parent Company. We cooperated fully with the investigation. On September 15, 2021, the United States District Court for the Middle District of Florida ordered the unsealing of this *qui tam* complaint, which contains allegations related to the information sought in the September 14, 2017 CID. Specifically, the relator claims our former hospital in St. Petersburg – Bayfront Medical Center St. Petersburg – along with other, unaffiliated hospitals violated the False Claims Act by allegedly making certain contributions to a non-profit entity for the purpose of receiving supplemental Medicaid funding. The United States has declined to intervene in the case. We filed a motion to dismiss on November 23, 2021, which the District Court granted without prejudice on January 24, 2023. The relator filed a first amended complaint on February 14, 2023, our response to which was filed on February 28, 2023. The District Court granted our motion to dismiss with prejudice on August 21, 2023. The relator has filed a notice of appeal to the United States Court of Appeals for the Eleventh Judicial Circuit.

Commercial Litigation and Other Lawsuits

Thomas Mason, MD, Steven Folstad, MD and Mid-Atlantic Emergency Medical Associates, PA v. Health Management Associates, LLC f/k/a Health Management Associates, Inc., Mooresville Hospital Management Associates d/b/a Lake Norman Regional Medical Center, Statesville HMA, LLC d/b/a Davis Regional Medical Center, Envision Healthcare Corporation f/k/a Emergency Medical Services Corporation, Emcare Holdings, Inc., and Emergency Medical Services, LP. This alleged wrongful retaliation case is filed in the United States District Court for the Western District of North Carolina. The plaintiffs allege their agreements with the defendants were terminated in retaliation for plaintiffs' alleged refusal to admit patients unnecessarily to the defendant hospitals or otherwise perform unnecessary diagnostic testing. The allegations of the complaint relate to time periods prior to the hospitals' affiliation with the Company. The plaintiffs filed a third amended complaint on April 26, 2019. The defendants filed motions to dismiss, which were granted in part and denied in part on September 5, 2019. A jury trial in this matter is set to begin on February 5, 2024. We continue to vigorously defend this case.

Tower Health, f/k/a Reading Health System, et al v. CHS/Community Health Systems, Inc., et al. This breach of contract action is pending in the United States District Court for the Eastern District of Pennsylvania. The plaintiffs allege breaches of an asset purchase agreement in connection with the sale of Pottstown Memorial Medical Center. The alleged breaches regard plaintiffs' contention that the defendants failed to disclose certain conditions related to the physical plant of the hospital, along with various other alleged breaches of the asset purchase agreement. The plaintiffs filed an amended complaint on July 22, 2019. Trial for this matter began May 3, 2021 and closed on October 5, 2021. On September 6, 2022, the District Court issued a Memorandum Opinion denying all of Tower Health's claims and entering a judgment in favor of the Company. The district Court also awarded the Company its attorneys' fees and costs. On October 4, 2022, Tower Health filed a Rule 59 motion to alter or amend the District Court's judgment and a Rule 15 motion to amend its pleadings. The Company has filed oppositions to both motions and has separately moved for its attorney's fees. On August 11, 2023, the District Court denied Tower Health's Rule 59 and Rule 15 motions. Tower Health has filed a notice of appeal to the United States Court of Appeals for the Third Judicial District. Our motion for attorneys' fees is still pending. We continue to vigorously defend this case.

Daniel H. Golden, as Litigation Trustee of the QHC Litigation Trust, and Wilmington Savings Fund Society, FSB, solely in its capacity as indenture trustee v. Community Health Systems, Inc., et al. A complaint in this case was filed on October 25, 2021 in the United States Bankruptcy Court for the District of Delaware against various persons, including the Company, certain subsidiaries of the Company, certain former executive officers of the Company and Credit Suisse Securities (USA) LLC. Plaintiff Daniel H. Golden is the litigation trustee for a litigation trust which was formed under the plan of reorganization of Quorum Health Corporation, or QHC, and certain affiliated entities confirmed by order of the United States Bankruptcy Court for the District of Delaware wherein QHC and certain affiliated entities contributed various causes of action to such litigation trust. Plaintiff Wilmington Savings Fund Society is the indenture trustee for certain notes issued by QHC. The complaint seeks damages and other forms of recovery arising out of certain alleged actions taken by the Company and the other defendants in connection with the spin-off of QHC which was completed on April 29, 2016, and includes claims for unjust enrichment and for avoidance of certain transactions and payments by QHC to the Company connected with the spin-off, including the \$1.21 billion special dividend paid by QHC to the Company as part of the spin-off transactions. We filed a motion to dismiss on January 14, 2022, and oral argument on that motion was heard on July 21, 2022. On March 16, 2023, the District Court granted in part and denied in part our motion to dismiss. We continue to vigorously defend this case.

Item 1A. Risk Factors

The following supplements the Company's risk factors previously disclosed in the 2022 Form 10-K by adding the following risk factors. Except as set forth below, there have been no material changes with regard to the risk factors previously disclosed in the 2022 Form 10-K.

Risks Related to Human Capital

We may be adversely impacted by the inability of third parties with whom we contract to provide hospital-based physicians as the result of industry-wide disruptions in the market for outsourced medical specialists.

We contract with various third parties who provide hospital-based physicians, including emergency, anesthesiology, hospitalist/inpatient care, radiology, tele-radiology and surgery. Third-party providers of hospital-based physicians, including those with whom we contract, have experienced significant disruption in the form of regulatory changes, including those stemming from enactment of the No Surprises Act, challenging labor market conditions resulting from a shortage of physicians and inflationary wage-related pressures, as well as increased competition through consolidation of physician groups. In some instances, providers of outsourced medical specialists have become insolvent and unable to fulfill their contracts with us for providing hospital-based physicians. The success of our hospitals depends in part on the adequacy of staffing, including through contracts with third parties. If we are unable to adequately contract with providers, or the providers with whom we contract become unable to fulfill their contracts, our admissions may decrease, and our operating performance, capacity and growth prospects may be adversely affected. Further, our efforts to mitigate the potential impact to our business from third-party providers who are unable to fulfill their contracts to provide hospital-based physicians, including through acquisitions of outsourced medical specialist businesses, employment of physicians and re-negotiation or assumption of existing contracts, may be unsuccessful. These developments with respect to providers of outsourced medical specialists, and our inability to effectively respond to and mitigate the potential impact of such developments, may disrupt our ability to provide healthcare services, which may adversely impact our business and financial results.

Risks Related to Cybersecurity and Technology

If the redesign and consolidation of key business functions, including through the implementation of a core enterprise resource planning system, or ERP, does not proceed as expected or is not completed successfully, our business and financial results may be adversely impacted.

We have begun a transformative process of redesigning numerous workflows that is intended to modernize and consolidate our technology platforms and associated processes across our organization. As part of this process, we are creating shared business operations to carry out certain financial and operational functions and are designing and implementing a new ERP system. We are currently in the design phases of the project and expect implementation of individual modules of the ERP and other aspects of this process to occur over a multi-year period. The redesign of various business processes and implementation of this ERP and other aspects of this transformative process requires an investment of significant personnel and financial resources, including substantial expenditures for third-party consultants and system hardware and software. This implementation process could disrupt our operations or otherwise adversely affect us, including as the result of delays, disruptions to business continuity, higher than anticipated expenditures, potential design defects, data migration issues, diversion of management's attention from other key priorities, increased cybersecurity risks and adverse impacts on the effectiveness of our internal controls over financial reporting. If we are unable to complete this redesign and consolidation of key business functions, including the implementation of the ERP, effectively, on a timely basis, or at all, our financial position, results of operations and cash flows may be adversely affected. Moreover, there is no assurance that this new ERP and other aspects of this process, once implemented, will meet our current or future business needs or will operate as intended.

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

The following table contains information about our purchases of common stock during the three months ended September 30, 2023.

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (b)
July 1, 2023 - July 31, 2023	—	\$ —	—	—
August 1, 2023 - August 31, 2023	939	3.38	—	—
September 1, 2023 - September 30, 2023	—	—	—	—
Total	<u>939</u>	<u>\$ 3.38</u>	<u>—</u>	<u>—</u>

(a) 939 shares were withheld to satisfy the payment of tax obligations related to the vesting of restricted stock awards.

(b) We had no publicly announced repurchase programs for shares of our common stock during the three months ended September 30, 2023.

The ABL Facility and the indentures governing each series of our outstanding notes restrict our subsidiaries from, among other matters, paying dividends and making distributions to us, which thereby limits our ability to pay dividends and/or repurchase stock. As of September 30, 2023, under the most restrictive test in these agreements (and subject to certain exceptions), we have approximately \$300 million of capacity to pay permitted dividends and/or repurchase shares of stock or make other restricted payments.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None. Without limiting the generality of the foregoing, during the three months ended September 30, 2023, no director or officer of the Company adopted or terminated any "Rule 10b5-1 trading arrangement," or any "non-Rule 10b-5 trading arrangement," as such terms are defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

No.	Description
2.1	<u>Asset Purchase Agreement, dated as of July 24, 2023, by and between certain subsidiaries of CHS/Community Health Systems, Inc. and Florida Health Sciences Center, Inc. d/b/a Tampa General Hospital and certain of its subsidiaries named therein (incorporated by reference to Exhibit 2.1 to Community Health Systems, Inc.'s Current Report on Form 8-K filed July 25, 2023 (No. 001-15925))</u>
3.1	<u>Amended and Restated By-laws of Community Health Systems, Inc., dated September 13, 2023 (incorporated by reference to Exhibit 3.1 to Community Health Systems, Inc.'s Current Report on Form 8-K filed September 13, 2023 (No. 001-15925))</u>
10.1	*† <u>Community Health Systems, Inc. 2019 Employee Performance Incentive Plan, as amended and restated September 13, 2023</u>
31.1	* <u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	* <u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	** <u>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</u>
32.2	** <u>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</u>
101	* The following financial information from our quarterly report on Form 10-Q for the quarter and nine months ended September 30, 2023 and 2022, filed with the SEC on October 26, 2023, formatted in Inline Extensible Business Reporting Language: (i) the condensed consolidated statements of loss for the three and nine months ended September 30, 2023 and 2022, (ii) the condensed consolidated statements of comprehensive loss for the three and nine months ended September 30, 2023 and 2022, (iii) the condensed consolidated balance sheets at September 30, 2023 and December 31, 2022, (iv) the condensed consolidated statements of cash flows for the nine months ended September 30, 2023 and 2022, and (v) the notes to the condensed consolidated financial statements. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
104	* Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

** Furnished herewith.

† Indicates a management contract or compensatory plan or arrangement.

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/ Tim L. Hingtgen

Tim L. Hingtgen
Director and
Chief Executive Officer

By: /s/ Kevin J. Hammons

Kevin J. Hammons
President and
Chief Financial Officer

By: /s/ Jason K. Johnson

Jason K. Johnson
Senior Vice President and
Chief Accounting Officer

Date: October 26, 2023

