TENET HEALTHCARE CORP
Form 10-Q
November 03, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended September 30, 2014

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 1-7293

TENET HEALTHCARE CORPORATION

(Exact name of Registrant as specified in its charter)

Nevada	95-2557091
(State of Incorporation)	(IRS Employer Identification No.)

1445 Ross Avenue, Suite 1400
Dallas, TX 75202

(Address of principal executive offices, including zip code)

(469) 893-2200

(Registrant's telephone number, including area code)

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, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Exchange Act Rule 12b-2).

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

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

As of October 31, 2014, there were 98,280,152 shares of the Registrant's common stock, $0.05 par value, outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

Dollars in Millions

(Unaudited)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 200	$ 113
Accounts receivable, less allowance for doubtful accounts ($773 at September 30, 2014 and $589 at December 31, 2013)	2,238	1,890
Inventories of supplies, at cost	270	260
Income tax receivable	22	—
Current portion of deferred income taxes	725	692
Other current assets	746	737
Total current assets	4,201	3,692
Investments and other assets	366	357
Deferred income taxes, net of current portion	100	148
Property and equipment, at cost, less accumulated depreciation and amortization ($4,347 at September 30, 2014 and $3,907 at December 31, 2013)	7,749	7,582
Goodwill	3,705	3,566
Other intangible assets, at cost, less accumulated amortization ($623 at September 30, 2014 and $516 at December 31, 2013)	1,191	1,105
Total assets	$ 17,312	$ 16,450
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 98	$ 153
Accounts payable	1,068	1,085
Accrued compensation and benefits	735	622
Professional and general liability reserves	175	156
Accrued interest payable	265	198

Other current liabilities	804	879
Total current liabilities	3,145	3,093
Long-term debt, net of current portion	11,455	10,696
Professional and general liability reserves	525	555
Defined benefit plan obligations	381	398
Other long-term liabilities	544	490
Total liabilities	16,050	15,232
Commitments and contingencies		
Redeemable noncontrolling interests in equity of consolidated subsidiaries	396	340
Equity:		
Shareholders' equity:		
Common stock, $0.05 par value; authorized 262,500,000 shares; 145,421,213 shares issued at September 30, 2014 and 144,057,351 shares issued at December 31, 2013	7	7
Additional paid-in capital	4,597	4,572
Accumulated other comprehensive loss	(20)	(24)
Accumulated deficit	(1,471)	(1,422)
Common stock in treasury, at cost, 47,196,935 shares at September 30, 2014 and 47,197,722 shares at December 31, 2013	(2,378)	(2,378)
Total shareholders' equity	735	755
Noncontrolling interests	131	123
Total equity	866	878
Total liabilities and equity	$ 17,312	$ 16,450

See accompanying Notes to Condensed Consolidated Financial Statements.

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TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Dollars in Millions, Except Per-Share Amounts

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net operating revenues:				
Net operating revenues before provision for doubtful accounts	$ 4,428	$ 2,618	$ 13,096	$ 7,841
Less: Provision for doubtful accounts	249	210	949	624
Net operating revenues	4,179	2,408	12,147	7,217
Operating expenses:				
Salaries, wages and benefits	2,028	1,172	5,905	3,499
Supplies	665	387	1,942	1,158
Other operating expenses, net	1,032	575	3,066	1,710
Electronic health record incentives	(5)	(14)	(72)	(48)
Depreciation and amortization	207	119	609	354
Impairment and restructuring charges, and acquisition-related costs	37	20	90	45
Litigation and investigation costs	4	1	19	3
Operating income	211	148	588	496
Interest expense	(186)	(91)	(558)	(292)
Loss from early extinguishment of debt	(24)	—	(24)	(348)
Investment earnings	—	—	—	1
Net income (loss) from continuing operations, before income taxes	1	57	6	(143)
Income tax benefit (expense)	18	(16)	11	57
Net income (loss) from continuing operations, before discontinued operations	19	41	17	(86)
Discontinued operations:				
Loss from operations	(2)	(8)	(17)	(5)
Litigation and investigation costs	—	(2)	(18)	(2)
Income tax benefit	1	5	13	3
Net loss from discontinued operations	(1)	(5)	(22)	(4)
Net income (loss)	18	36	(5)	(90)
Less: Net income attributable to noncontrolling interests	9	8	44	20
Net income (loss) attributable to Tenet Healthcare Corporation common shareholders	$ 9	$ 28	$ (49)	$ (110)

Amounts attributable to Tenet Healthcare Corporation common shareholders				
Net income (loss) from continuing operations, net of tax	$ 10	$ 33	$ (27)	$ (106)
Net loss from discontinued operations, net of tax	(1)	(5)	(22)	(4)
Net income (loss) attributable to Tenet Healthcare Corporation common shareholders	$ 9	$ 28	$ (49)	$ (110)
Earnings (loss) per share attributable to Tenet Healthcare Corporation common shareholders:				
Basic				
Continuing operations	$ 0.10	$ 0.33	$ (0.27)	$ (1.03)
Discontinued operations	(0.01)	(0.05)	(0.23)	(0.04)
	$ 0.09	$ 0.28	$ (0.50)	$ (1.07)
Diluted				
Continuing operations	$ 0.10	$ 0.32	$ (0.27)	$ (1.03)
Discontinued operations	(0.01)	(0.05)	(0.23)	(0.04)
	$ 0.09	$ 0.27	$ (0.50)	$ (1.07)
Weighted average shares and dilutive securities outstanding (in thousands):				
Basic	98,036	100,894	97,625	102,669
Diluted	100,926	103,098	97,625	102,669

See accompanying Notes to Condensed Consolidated Financial Statements.

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TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

Dollars in Millions

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss)	$ 18	$ 36	$ (5)	$ (90)
Other comprehensive income:				
Amortization of prior-year service costs included in net periodic benefit costs	1	—	4	—
Unrealized gains (losses) on securities held as available-for-sale	(1)	—	2	—
Other comprehensive income before income taxes	—	—	6	—
Income tax expense related to items of other comprehensive income	—	—	(2)	—
Total other comprehensive income, net of tax	—	—	4	—
Comprehensive net income (loss)	18	36	(1)	(90)
Less: Comprehensive income attributable to noncontrolling interests	9	8	44	20
Comprehensive net income (loss) attributable to Tenet Healthcare Corporation common shareholders	$ 9	$ 28	$ (45)	$ (110)

See accompanying Notes to Condensed Consolidated Financial Statements.

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TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in Millions

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Net loss	$ (5)	$ (90)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	609	354
Provision for doubtful accounts	949	624
Deferred income tax benefit	(22)	(60)
Stock-based compensation expense	41	26
Impairment and restructuring charges, and acquisition-related costs	90	45
Litigation and investigation costs	19	3
Loss from early extinguishment of debt	24	348
Amortization of debt discount and debt issuance costs	21	12
Pre-tax loss from discontinued operations	35	7
Other items, net	(16)	(19)
Changes in cash from operating assets and liabilities:		
Accounts receivable	(1,309)	(662)
Inventories and other current assets	12	(159)
Income taxes	(7)	(5)
Accounts payable, accrued expenses and other current liabilities	120	(44)
Other long-term liabilities	38	(5)
Payments for restructuring charges, acquisition-related costs, and litigation costs and settlements	(115)	(36)
Net cash used in operating activities from discontinued operations, excluding income taxes	(16)	(5)
Net cash provided by operating activities	468	334
Cash flows from investing activities:		
Purchases of property and equipment — continuing operations	(734)	(398)
Purchases of businesses or joint venture interests, net of cash acquired	(185)	(142)
Proceeds from sales of facilities and other assets — discontinued operations	4	11
Proceeds from sales of marketable securities, long-term investments and other assets	2	6
Other long-term assets	(4)	11
Other items, net	3	3
Net cash used in investing activities	(914)	(509)
Cash flows from financing activities:		
Repayments of borrowings under credit facility	(1,965)	(1,001)
Proceeds from borrowings under credit facility	1,560	1,211

Repayments of other borrowings	(655)	(1,987)
Proceeds from other borrowings	1,608	1,907
Repurchases of common stock	—	(300)
Deferred debt issuance costs	(26)	(31)
Distributions paid to noncontrolling interests	(30)	(18)
Contributions from noncontrolling interests	15	98
Proceeds from exercise of stock options	23	22
Other items, net	3	(8)
Net cash provided by (used in) financing activities	533	(107)
Net increase (decrease) in cash and cash equivalents	87	(282)
Cash and cash equivalents at beginning of period	113	364
Cash and cash equivalents at end of period	$ 200	$ 82
Supplemental disclosures:		
Interest paid, net of capitalized interest	$ (487)	$ (295)
Income tax payments, net	$ (5)	$ (5)

See accompanying Notes to Condensed Consolidated Financial Statements.

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TENET HEALTHCARE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Description of Business and Basis of Presentation

Tenet Healthcare Corporation (together with our subsidiaries, referred to herein as "Tenet," "we" or "us") is a national, diversified healthcare services company. As of September 30, 2014, we operated 80 hospitals, 198 outpatient centers, six health plans and Conifer Health Solutions, LLC ("Conifer"), which provides healthcare business process services in the areas of revenue cycle management, value-based care and patient communications.

Effective October 1, 2013, we acquired the common stock of Vanguard Health Systems, Inc. ("Vanguard") for $21 per share in an all cash transaction. Vanguard owned and operated 28 hospitals (plus one more under construction, which was recently completed), 39 outpatient centers and five health plans with approximately 140,000 members, serving communities in Arizona, California, Illinois, Massachusetts, Michigan and Texas. We paid approximately $4.3 billion to acquire Vanguard, including the assumption of $2.5 billion of Vanguard's net debt.

This quarterly report supplements our Annual Report on Form 10-K for the year ended December 31, 2013 ("Annual Report"). As permitted by the Securities and Exchange Commission for interim reporting, we have omitted certain notes and disclosures that substantially duplicate those in our Annual Report. For further information, refer to the audited Consolidated Financial Statements and notes included in our Annual Report. Unless otherwise indicated, all financial and statistical data included in these notes to our Condensed Consolidated Financial Statements relate to our continuing operations, with dollar amounts expressed in millions (except per-share amounts). The accompanying Condensed Consolidated Balance Sheet as of December 31, 2013 was derived from the audited consolidated financial statements included in our Annual Report, but has been revised to reflect the impact of completing the purchase price allocation for the acquisition of Vanguard, as described in Note 14. Additionally, certain prior-year amounts have been adjusted to conform to the current-year presentation, including $73 million of Medicaid supplemental payments receivable that are now presented as other current assets rather than accounts receivable.

Although the Condensed Consolidated Financial Statements and related notes within this document are unaudited, we believe all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. In preparing our financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"), we must use estimates and assumptions that affect the amounts reported in our Condensed Consolidated Financial Statements and these accompanying notes. We regularly evaluate the accounting policies and estimates we use. In general, we base the estimates on historical experience and on assumptions that we believe to be

reasonable given the particular circumstances in which we operate. Actual results may vary from those estimates. Financial and statistical information we report to other regulatory agencies may be prepared on a basis other than GAAP or using different assumptions or reporting periods and, therefore, may vary from amounts presented herein. Although we make every effort to ensure that the information we report to those agencies is accurate, complete and consistent with applicable reporting guidelines, we cannot be responsible for the accuracy of the information they make available to the public.

Operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the full year. Reasons for this include, but are not limited to: overall revenue and cost trends, particularly the timing and magnitude of price changes; fluctuations in contractual allowances and cost report settlements and valuation allowances; managed care contract negotiations, settlements or terminations and payer consolidations; changes in Medicare and Medicaid regulations; Medicaid and other supplemental funding levels set by the states in which we operate; the timing of approval by the Centers for Medicare and Medicaid Services of Medicaid provider fee revenue programs; trends in patient accounts receivable collectability and associated provisions for doubtful accounts; fluctuations in interest rates; levels of malpractice insurance expense and settlement trends; the number of covered lives managed by our health plans and the plans' ability to effectively manage medical costs; the timing of when we meet the criteria to recognize electronic health record incentives; impairment of long-lived assets and goodwill; restructuring charges; losses, costs and insurance recoveries related to natural disasters; litigation and investigation costs; acquisitions and dispositions of facilities and other assets; income tax rates and deferred tax asset valuation allowance activity; changes in estimates of accruals for annual incentive compensation; the timing and amounts of stock option and

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restricted stock unit grants to employees and directors; gains or losses from early extinguishment of debt; and changes in occupancy levels and patient volumes. Factors that affect patient volumes and, thereby, the results of operations at our hospitals and related healthcare facilities include, but are not limited to: the business environment, economic conditions and demographics of local communities in which we operate; the number of uninsured and underinsured individuals in local communities treated at our hospitals; seasonal cycles of illness; climate and weather conditions; physician recruitment, retention and attrition; advances in technology and treatments that reduce length of stay; local healthcare competitors; managed care contract negotiations or terminations; any unfavorable publicity about us, which impacts our relationships with physicians and patients; changes in healthcare regulations and the participation of individual states in federal programs; and the timing of elective procedures. These considerations apply to year-to-year comparisons as well.

Net Operating Revenues Before Provision for Doubtful Accounts

We recognize net operating revenues before provision for doubtful accounts in the period in which our services are performed. Net operating revenues before provision for doubtful accounts primarily consist of net patient service revenues that are recorded based on established billing rates (i.e., gross charges), less estimated discounts for contractual and other allowances, principally for patients covered by Medicare, Medicaid, managed care and other health plans, as well as certain uninsured patients under our Compact with Uninsured Patients (“Compact”) and other uninsured discount and charity programs.

The table below shows the sources of net operating revenues before provision for doubtful accounts:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
General Hospitals:				
Medicare	$ 838	$ 501	$ 2,560	$ 1,543
Medicaid	340	206	1,012	630
Managed care	2,369	1,378	6,787	4,126
Indemnity, self-pay and other	357	262	1,172	783
Acute care hospitals — other revenue	8	14	45	53
Other:				
Other operations	516	257	1,520	706
Net operating revenues before provision for doubtful accounts	$ 4,428	$ 2,618	$ 13,096	$ 7,841

Cash and Cash Equivalents

We treat highly liquid investments with original maturities of three months or less as cash equivalents. Cash and cash equivalents were approximately $200 million and $113 million at September 30, 2014 and December 31, 2013, respectively. As of September 30, 2014 and December 31, 2013, our book overdrafts were approximately $194 million and $245 million, respectively, which were classified as accounts payable.

At September 30, 2014 and December 31, 2013, approximately $98 million and $62 million, respectively, of total cash and cash equivalents in the accompanying Condensed Consolidated Balance Sheets were intended for the operations of our captive insurance subsidiaries.

Also at September 30, 2014 and December 31, 2013, we had $113 million and $193 million, respectively, of property and equipment purchases accrued for items received but not yet paid. Of these amounts, $62 million and $138 million, respectively, were included in accounts payable.

During the nine months ended September 30, 2014 and 2013, we entered into non-cancellable capital leases of approximately $112 million and $99 million, respectively, primarily for buildings and equipment.

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Other Intangible Assets

The following tables provide information regarding other intangible assets, which are included in the accompanying Condensed Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013:

	Gross Carrying Amount	Accumulated Amortization	Net Book Value
As of September 30, 2014:			
Capitalized software costs	$ 1,326	$ (552)	$ 774
Long-term debt issuance costs	245	(42)	203
Trade names	106	—	106
Contracts	57	(5)	52
Other	80	(24)	56
Total	$ 1,814	$ (623)	$ 1,191

	Gross Carrying Amount	Accumulated Amortization	Net Book Value
As of December 31, 2013:			
Capitalized software costs	$ 1,148	$ (468)	$ 680
Long-term debt issuance costs	230	(31)	199
Trade names	106	—	106
Contracts	57	(2)	55
Other	80	(15)	65
Total	$ 1,621	$ (516)	$ 1,105

Estimated future amortization of intangibles with finite useful lives as of September 30, 2014 is as follows:

		Years Ending December 31,					
	Total	2014	2015	2016	2017	2018	Later Years
Amortization of intangible assets	$ 1,077	$ 54	$ 190	$ 163	$ 134	$ 130	$ 406

NOTE 2. ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The principal components of accounts receivable are shown in the table below:

	September 30, 2014	December 31, 2013
Continuing operations:		
Patient accounts receivable	$ 2,978	$ 2,459
Allowance for doubtful accounts	(772)	(589)
Estimated future recoveries from accounts assigned to our Conifer subsidiary	122	92
Net cost reports and settlements payable and valuation allowances	(92)	(75)
	2,236	1,887
Discontinued operations	2	3
Accounts receivable, net	$ 2,238	$ 1,890

As of September 30, 2014 and December 31, 2013, our allowance for doubtful accounts was 25.9% and 24.0%, respectively, of our patient accounts receivable. Accounts that are pursued for collection through Conifer's regional business offices are maintained on our hospitals' books and reflected in patient accounts receivable with an allowance for doubtful accounts established to reduce the carrying value of such receivables to their estimated net realizable value. Generally, we estimate this allowance based on the aging of our accounts receivable by hospital, our historical collection experience by hospital and for each type of payer, and other relevant factors. As of September 30, 2014 and December 31, 2013, our allowance for doubtful accounts for self-pay was 79.5% and 75.9%, respectively, of our self-pay

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patient accounts receivable, including co-pays and deductibles owed by patients with insurance. As of September 30, 2014 and December 31, 2013, our allowance for doubtful accounts for managed care was 6.2% and 5.9%, respectively, of our managed care patient accounts receivable.

The estimated costs (based on selected operating expenses, which include salaries, wages and benefits, supplies and other operating expenses) of caring for our self-pay patients for the three months ended September 30, 2014 and 2013 were approximately $135 million and $116 million, respectively, and for the nine months ended September 30, 2014 and 2013 were approximately $488 million and $342 million, respectively. Our estimated costs (based on the selected operating expenses described above) of caring for charity care patients for the three months ended September 30, 2014 and 2013 were approximately $42 million and $32 million, respectively, and for the nine months ended September 30, 2014 and 2013 were approximately $137 million and $95 million, respectively. Most states include an estimate of the cost of charity care in the determination of a hospital's eligibility for Medicaid disproportionate share hospital ("DSH") payments. Revenues attributable to DSH payments and other state-funded subsidy payments for the three months ended September 30, 2014 and 2013 were approximately $178 million and $72 million, respectively, and for the nine months ended September 30, 2014 and 2013 were approximately $493 million and $257 million, respectively. These payments are intended to mitigate our cost of uncompensated care, as well as reduced Medicaid funding levels.

NOTE 3. DISCONTINUED OPERATIONS

Net operating revenues and loss before income taxes reported in discontinued operations are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net operating revenues	$ 1	$ 3	$ 2	$ 6
Net loss before income taxes	(2)	(10)	(35)	(7)

Net loss before income taxes from discontinued operations in the nine months ended September 30, 2014 included approximately $18 million of expense recorded in litigation and investigation costs allocable to one of our previously divested hospitals related to a class action lawsuit discussed in Note 10. In the nine months ended September 30, 2013, we recognized a $7 million gain in discontinued operations related to the sale of land.

Should we dispose of additional hospitals or other assets in the future, we may incur asset impairment and restructuring charges in future periods.

NOTE 4. IMPAIRMENT AND RESTRUCTURING CHARGES, AND ACQUISITION-RELATED COSTS

During the nine months ended September 30, 2014, we recorded impairment and restructuring charges and acquisition-related costs of $90 million, consisting of $14 million of employee severance costs, $6 million of contract and lease termination fees, $19 million of restructuring costs, and $51 million in acquisition-related costs, which include $7 million of transaction costs and $44 million of acquisition integration charges.

During the nine months ended September 30, 2013, we recorded impairment and restructuring charges and acquisition-related costs of $45 million, consisting of $2 million relating to the impairment of property, $10 million of restructuring costs, $9 million of employee severance costs, $1 million in lease termination fees, and $23 million in acquisition-related costs.

Our impairment tests presume stable, improving or, in some cases, declining operating results in our hospitals, which are based on programs and initiatives being implemented that are designed to achieve the hospital’s most recent projections. If these projections are not met, or if in the future negative trends occur that impact our future outlook, impairments of long-lived assets and goodwill may occur, and we may incur additional restructuring charges, which could be material.

As of September 30, 2014, our continuing operations consisted of two operating segments, our hospital and other operations and our Conifer subsidiary. During the three months ended March 31, 2014, we combined our

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California region and our Phoenix market to form our Western region. Our hospital and other operations are currently structured as follows:

- Our Central region includes all of our hospitals and other operations in Missouri, New Mexico, Tennessee and Texas, except for those in the Resolute Health, San Antonio and South Texas markets;
- Our Florida region includes all of our hospitals and other operations in Florida;
- Our Northeast region includes all of our hospitals and other operations in Illinois, Massachusetts and Pennsylvania;
- Our Southern region includes all of our hospitals and other operations in Alabama, Georgia, North Carolina and South Carolina;
- Our Western region includes all of our hospitals and other operations in Arizona and California;
- Our Detroit market includes all of our hospitals and other operations in the Detroit, Michigan area;
- Our Resolute Health market includes our hospital and other operations in the New Braunfels, Texas area;
- Our San Antonio market includes all of our hospitals and other operations in the San Antonio, Texas area; and
- Our South Texas market includes all of our hospitals and other operations in the Brownsville and Harlingen, Texas areas.

These regions and markets are reporting units used to perform our goodwill impairment analysis and are one level below our hospital operations reportable business segment level.

We periodically incur costs to implement restructuring efforts for specific operations, which are recorded in our statement of operations as they are incurred. Our restructuring plans focus on various aspects of operations, including aligning our operations in the most strategic and cost-effective structure. Certain restructuring and acquisition-related costs are based on estimates. Changes in estimates are recognized as they occur.

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NOTE 5. LONG-TERM DEBT AND LEASE OBLIGATIONS

The table below shows our long-term debt as of September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
Senior notes:		
97/8%, due 2014	$ —	$ 60
91/4%, due 2015	—	474
5%, due 2019	1,100	—
51/ %, due 2019	500	—
63/4%, due 2020	300	300
8%, due 2020	750	750
81/8%, due 2022	2,800	2,800
67/8%, due 2031	430	430
Senior secured notes:		
61/4%, due 2018	1,041	1,041
43/4%, due 2020	500	500
6%, due 2020	1,800	1,800
41/2%, due 2021	850	850
43/8%, due 2021	1,050	1,050
Credit facility due 2016	—	405
Capital leases and mortgage notes	453	417
Unamortized note discounts and premium	(21)	(28)
Total long-term debt	11,553	10,849
Less current portion	98	153
Long-term debt, net of current portion	$ 11,455	$ 10,696

Credit Agreement

We have a senior secured revolving credit facility (as amended, “Credit Agreement”) that provides, subject to borrowing availability, for revolving loans in an aggregate principal amount of up to $1 billion, with a $300 million subfacility for standby letters of credit. The Credit Agreement, which has a scheduled maturity date of November 29, 2016, is collateralized by patient accounts receivable of all of our wholly owned acute care and specialty hospitals. In addition, borrowings under the Credit Agreement are guaranteed by our wholly owned hospital subsidiaries. Outstanding revolving loans accrue interest at a base rate plus a margin ranging from 1.00% to 1.50% or the London Interbank Offered Rate plus a margin ranging from 2.00% to 2.50% per annum based on available credit. An unused commitment fee payable on the undrawn portion of the revolving loans ranges from 0.375% to 0.500% per annum

based on available credit. Our borrowing availability is based on a specified percentage of eligible accounts receivable, including self-pay accounts. At September 30, 2014, we had no cash borrowings outstanding under the revolving credit facility; however, we had approximately $6 million of standby letters of credit outstanding. Based on our eligible receivables, approximately $994 million was available for borrowing under the revolving credit facility at September 30, 2014.

Letter of Credit Facility

On March 7, 2014, we entered into a new letter of credit facility agreement ("LC Facility") that provides for the issuance of standby and documentary letters of credit (including certain letters of credit issued under our existing Credit Agreement, which we transferred to the LC Facility (the "Existing Letters of Credit")), from time to time, in an aggregate principal amount of up to $180 million (subject to increase to up to $200 million). The LC Facility has a scheduled maturity date of March 7, 2017, and obligations thereunder are guaranteed by and secured by a first priority pledge of the capital stock and other ownership interests of certain of our hospital subsidiaries on an equal ranking basis with our existing senior secured notes.

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Drawings under any letter of credit issued under the LC Facility (including the Existing Letters of Credit) that we have not reimbursed within three business days after notice thereof will accrue interest at a base rate plus a margin equal to 0.875% per annum. An unused commitment fee is payable at an initial rate of 0.50% per annum with a step down to 0.375% per annum based on the secured debt to EBITDA ratio of 3.00 to 1.00. A per annum fee on the aggregate outstanding amount of issued but undrawn letters of credit (including Existing Letters of Credit) will accrue at a rate of 1.875% per annum. An issuance fee equal to 0.125% per annum of the aggregate face amount of each outstanding letter of credit is payable to the account of the issuer of the related letter of credit. At September 30, 2014, we had approximately $115 million of standby letters of credit outstanding under the LC Facility.

Senior Notes

In September 2014, we sold $500 million aggregate principal amount of 5$^{1}/_{2}$% senior notes, which will mature on March 1, 2019. We will pay interest on the notes semi-annually in arrears on March 1 and September 1 of each year, commencing on March 1, 2015. The proceeds from the sale of the notes were used for general corporate purposes, including the repayment of indebtedness and drawings under our Credit Agreement, related transaction fees and expenses, and acquisitions.

In June and March 2014, we sold $500 million and $600 million aggregate principal amount, respectively, of 5% senior notes, which will mature on March 1, 2019. We will pay interest on the notes semi-annually in arrears on March 1 and September 1 of each year, which payments commenced on September 1, 2014. The net proceeds from the sale of the notes in June 2014 were used to redeem our 91/4% senior notes due 2015 in July 2014. In connection with the redemption, we recorded a loss from early extinguishment of debt of approximately $24 million, primarily related to the difference between the redemption price and the par value of the notes, as well as the write-off of associated unamortized note discounts and issuance costs. The net proceeds from the sale of the notes in March 2014 were used for general corporate purposes, including the repayment of borrowings under our Credit Agreement.

All of our senior notes are general unsecured senior debt obligations that rank equally in right of payment with all of our other unsecured senior indebtedness, but are effectively subordinated to our senior secured notes described in our Annual Report, the obligations of our subsidiaries, and any obligations under our Credit Agreement and the LC Facility to the extent of the collateral. Our Annual Report also describes the covenants and conditions, as well as other provisions, including our redemption rights, set forth in the indentures governing our senior notes.

NOTE 6. GUARANTEES

At September 30, 2014, the maximum potential amount of future payments under our income guarantees to certain physicians who agree to relocate and revenue collection guarantees to hospital-based physician groups providing certain services at our hospitals was $92 million. We had a liability of $69 million recorded for these guarantees

included in other current liabilities at September 30, 2014.

NOTE 7. EMPLOYEE BENEFIT PLANS

At September 30, 2014, approximately 5.2 million shares of common stock were available under our 2008 Stock Incentive Plan for future stock option grants and other incentive awards, including restricted stock units. Options have an exercise price equal to the fair market value of the shares on the date of grant and generally expire 10 years from the date of grant. A restricted stock unit is a contractual right to receive one share of our common stock or the equivalent value in cash in the future. Options and restricted stock units typically vest one-third on each of the first three anniversary dates of the grant; however, from time to time, we grant (i) options and restricted stock units with different time-based vesting terms, and (ii) performance-based options and restricted stock units that vest subject to the achievement of specified performance goals within a specified timeframe.

Our income from continuing operations for the nine months ended September 30, 2014 and 2013 includes $38 million and $29 million, respectively, of pre-tax compensation costs related to our stock-based compensation arrangements recorded in salaries, wages and benefits in the accompanying Condensed Consolidated Statements of Operations.

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Stock Options

The following table summarizes stock option activity during the nine months ended September 30, 2014:

	Options	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value (In Millions)	Weighted Average Remaining Life
Outstanding as of December 31, 2013	3,308,111	$ 30.79		
Granted	—			
Exercised	(691,050)	33.72		
Forfeited/Expired	(624,052)	47.97		
Outstanding as of September 30, 2014	1,993,009	$ 24.40	$ 70	3.9 years
Vested and expected to vest at September 30, 2014	1,984,562	$ 24.31	$ 70	3.9 years
Exercisable as of September 30, 2014	1,587,878	$ 21.90	$ 60	3.7 years

There were 691,050 stock options exercised during the nine months ended September 30, 2014 with a $13 million aggregate intrinsic value, and 913,369 stock options exercised during the same period in 2013 with a $17 million aggregate intrinsic value.

As of September 30, 2014, there were $2 million of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 1.1 years.

There were no stock options granted in the nine months ended September 30, 2014. In the nine months ended September 30, 2013, we granted an aggregate of 295,639 stock options under our 2008 Stock Incentive Plan to certain of our senior officers. These stock options will all vest on the third anniversary of the grant date, subject to the terms of the Plan, and will expire on the fifth anniversary of the grant date.

The weighted average estimated fair value of stock options we granted in the nine months ended September 30, 2013 was $14.46 per share. This fair value was calculated based on the grant date, using a binomial lattice model with the following assumptions:

	Nine Months Ended September 30, 2013
Expected volatility	50%
Expected dividend yield	0%
Expected life	3.6 years
Expected forfeiture rate	6%
Risk-free interest rate	0.48%
Early exercise threshold	100% gain
Early exercise rate	50% per year

The expected volatility used in the binomial lattice model incorporated historical and implied share-price volatility and was based on an analysis of historical prices of our stock and open-market exchanged options. The expected volatility reflects the historical volatility for a duration consistent with the contractual life of the options, and the volatility implied by the trading of options to purchase our stock on open-market exchanges. The historical share-price volatility excludes the movements in our stock price on two dates (one in 2010 and one in 2011) with unusual volatility due to an unsolicited acquisition proposal. The expected life of options granted is derived from the output of the binomial lattice model and represents the period of time that the options are expected to be outstanding. This model incorporates an early exercise assumption in the event of a significant increase in stock price. The risk-free interest rates are based on zero-coupon United States Treasury yields in effect at the date of grant consistent with the expected exercise timeframes.

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The following table summarizes information about our outstanding stock options at September 30, 2014:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$0.00 to $4.569	242,753	4.4 years	$ 4.56	242,753	$ 4.56
$4.57 to $25.089	957,583	5.2 years	20.96	830,903	20.67
$25.09 to $32.569	402,816	1.9 years	29.32	402,816	29.32
$32.57 to $42.089	389,857	2.5 years	40.10	111,406	42.08
	1,993,009	3.9 years	$ 24.40	1,587,878	$ 21.90

Restricted Stock Units

The following table summarizes restricted stock unit activity during the nine months ended September 30, 2014:

	Restricted Stock Units	Weighted Average Grant Date Fair Value Per Unit
Unvested as of December 31, 2013	2,707,222	$ 33.34
Granted	1,768,508	48.41
Vested	(900,763)	36.51
Forfeited	(140,468)	35.23
Unvested as of September 30, 2014	3,434,499	$ 41.85

In the nine months ended September 30, 2014, we granted 1,045,750 restricted stock units subject to time-vesting of which 944,249 will vest and be settled ratably over a three-year period from the date of the grant, 23,435 will vest 100% on the tenth anniversary of the grant date, 63,623 will vest 100% on the fifth anniversary of the grant date and 14,443 will vest 100% on the third anniversary of the grant date. In addition, we granted 271,815 performance-based restricted stock units to certain of our senior officers; the vesting of these restricted stock units is contingent on our achievement of a specified one-year performance goal for the year ending December 31, 2014. Provided the goal is achieved, the performance-based restricted stock units will vest ratably over a three-year period from the grant date. If the performance goal is not achieved, the restricted stock units will be forfeited. The actual number of performance-based restricted stock units that could vest will range from 0% to 200% of the 271,815 units granted, depending on our level of achievement with respect to the performance goal. We also granted 450,943 special retention restricted stock units to a select group of officers; two-thirds of the award will vest contingent on our

achievement of a performance goal of which one-half will vest based on performance over a one-year period ending in December 2015 and the remaining one-half will vest based on performance over a four-year period ending in December 2018. The remaining one-third of this special retention award will vest in full on the fifth anniversary of the grant date.

In the nine months ended September 30, 2013, we granted 815,262 restricted stock units subject to time-vesting, of which 735,129 will vest and be settled ratably over a three-year period from the grant date and 80,133 will vest 100% on the fifth anniversary of the grant date. In addition, we granted 206,058 performance-based restricted stock units to certain of our senior officers. Because the performance goal for the year ended December 31, 2013 was met at the target level, 100% of the performance-based restricted stock units will vest and be settled ratably over a three-year period from the grant date. We also awarded a grant of 212,180 restricted stock units to our chief executive officer, of which 106,090 are subject to time-vesting and 106,090 are performance-based. If target conditions are met, 50% of this grant will vest three years from the grant date and the remaining 50% will vest six years from the grant date. The award also allows for an additional 106,090 shares to be issued if higher performance criteria are met.

As of September 30, 2014, there were $107 million of total unrecognized compensation costs related to restricted stock units. These costs are expected to be recognized over a weighted average period of 3.0 years.

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NOTE 8. EQUITY

Changes in Shareholders' Equity

The following table shows the changes in consolidated equity during the nine months ended September 30, 2014 and 2013 (dollars in millions, share amounts in thousands):

	Tenet Healthcare Corporation Shareholders' Equity							
	Common Stock							
	Shares Outstanding	Issued Par Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock	Noncontrolling Interests	Total Equity
Balances at December 31, 2013	96,860	$ 7	$ 4,572	$ (24)	$ (1,422)	$ (2,378)	$ 123	$ 878
Net income (loss)	—	—	—	—	(49)	—	20	(29)
Distributions paid to noncontrolling interests	—	—	—	—	—	—	(27)	(27)
Contributions from noncontrolling interests	—	—	—	—	—	—	5	5
Other comprehensive income	—	—	—	4	—	—	—	4
Purchases (sales) of businesses or joint venture interests	—	—	(22)	—	—	—	10	(12)
Stock-based compensation expense and issuance of common stock	1,364	—	47	—	—	—	—	47
	98,224	$ 7	$ 4,597	$ (20)	$ (1,471)	$ (2,378)	$ 131	$ 866

Balances at September 30, 2014								
Balances at December 31, 2012	104,633	$ 7	$ 4,471	$ (68)	$ (1,288)	$ (1,979)	$ 75	$ 1,218
Net income (loss)	—	—	—	—	(110)	—	13	(97)
Distributions paid to noncontrolling interests	—	—	—	—	—	—	(16)	(16)
Sales of joint venture interests	—	—	53	—	—	—	—	53
Purchases of businesses or joint venture interests	—	—	—	—	—	—	23	23
Repurchase of common stock	(7,095)	—	—	—	—	(300)	—	(300)
Stock-based compensation expense and issuance of common stock	1,628	—	38	—	—	1	—	39
Balances at September 30, 2013	99,166	$ 7	$ 4,562	$ (68)	$ (1,398)	$ (2,278)	$ 95	$ 920

Changes in Redeemable Noncontrolling Interests in Equity of Consolidated Subsidiaries

The following table shows the changes in redeemable noncontrolling interests in equity of consolidated subsidiaries during the nine months ended September 30, 2014 and 2013:

	Nine Months Ended September 30,	
	2014	2013
Balances at beginning of period	$ 340	$ 16
Net income	24	7
Distributions paid to noncontrolling interests	(3)	(2)
Contributions from noncontrolling interests	10	—
Sales of joint venture interests	—	52

Purchases of businesses	25	10
Balances at end of period	$ 396	$ 83

NOTE 9. PROPERTY AND PROFESSIONAL AND GENERAL LIABILITY INSURANCE

Property Insurance

We have property, business interruption and related insurance coverage to mitigate the financial impact of catastrophic events or perils that is subject to deductible provisions based on the terms of the policies. These policies are on an occurrence basis.

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Professional and General Liability Reserves

At September 30, 2014 and December 31, 2013, the aggregate current and long-term professional and general liability reserves in our accompanying Condensed Consolidated Balance Sheets were approximately $700 million and $711 million, respectively. These reserves include the reserves recorded by our captive insurance subsidiaries and our self-insured retention reserves recorded based on actuarial estimates for the portion of our professional and general liability risks, including incurred but not reported claims, for which we do not have insurance coverage. We estimated the reserves for losses and related expenses using expected loss-reporting patterns discounted to their present value under a risk-free rate approach using a Federal Reserve seven-year maturity rate of 2.22% at September 30, 2014 and 2.45% at December 31, 2013.

If the aggregate limit of any of our professional and general liability policies is exhausted, in whole or in part, it could deplete or reduce the limits available to pay any other material claims applicable to that policy period.

Included in other operating expenses, net, in the accompanying Condensed Consolidated Statements of Operations is malpractice expense of $170 million and $71 million for the nine months ended September 30, 2014 and 2013, respectively.

NOTE 10. CLAIMS AND LAWSUITS

We operate in a highly regulated and litigious industry. As a result, we commonly become involved in disputes, litigation and regulatory matters incidental to our operations, including governmental investigations, personal injury lawsuits, employment claims and other matters arising out of the normal conduct of our business.

We record accruals for estimated losses relating to claims and lawsuits when available information indicates that a loss is probable and we can reasonably estimate the amount of the loss or a range of loss. If a loss on a material matter is reasonably possible and estimable, we disclose an estimate of the loss or a range of loss. In cases where we have not disclosed an estimate, we have concluded that the loss is either not reasonably possible or the loss, or a range of loss, is not reasonably estimable, based on available information.

Governmental Reviews

Healthcare companies are subject to numerous investigations by various governmental agencies. Further, private parties have the right to bring qui tam or "whistleblower" lawsuits against companies that allegedly submit false claims for payments to, or improperly retain overpayments from, the government and, in some states, private payers. Certain of our individual facilities have received inquiries from government agencies, and our facilities may receive such inquiries in future periods. The following material governmental reviews, which have been previously reported, are currently pending.

- Kyphoplasty—From March 2009 through July 2010, seven of our hospitals became the subject of a review by the U.S. Department of Justice ("DOJ") and certain other federal agencies regarding the appropriateness of inpatient treatment for Medicare patients receiving kyphoplasty, which is a surgical procedure used to treat certain spinal conditions. In January 2013, we paid $900,000 to settle claims against one of our hospitals subject to this review, and, in April 2014, we confirmed that another hospital is no longer the subject of investigation. In September 2014, subject to negotiation of final settlement terms, we reached a verbal financial agreement with the government to settle this matter with respect to the remaining five hospitals for approximately $2 million, which has been fully reserved as of September 30, 2014.

- Implantable Cardioverter Defibrillators ("ICDs")—We are engaged in potential settlement discussions with the DOJ to resolve an investigation to determine whether ICD procedures performed at 56 of our hospitals from 2002 to 2010 complied with Medicare coverage requirements. It is impossible at this time to predict with any certainty the outcome of those discussions or the amount of any potential resolution. However, based on current discussions, we believe the amount of the reserve management has established for this matter, as described below, continues to reflect our current estimate of probable liability for all of the hospitals under review as part of the government's examination, which commenced in March 2010.

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- Clinica de la Mama Investigations and Qui Tam Action—As previously reported, we received a subpoena in May 2012 from the Office of Inspector General ("OIG") of U.S. Department of Health and Human Services in Atlanta seeking documents from January 2004 through May 2012 related to the relationship that certain of our Georgia and South Carolina hospitals had with Hispanic Medical Management, Inc. ("HMM"). HMM was an unaffiliated entity that owned and operated clinics that provided, among other things, prenatal care predominantly to uninsured patients. The hospitals contracted with HMM for translation, marketing, management and Medicaid eligibility determination services. The civil investigation is being conducted by the Civil Division of the DOJ, the U.S. Attorney's Office for the Middle District of Georgia and the Georgia Attorney General's Office, while the parallel criminal investigation is being conducted by the Criminal Division of the DOJ and the U.S. Attorney's Office for the Northern District of Georgia.

The investigations arose out of a qui tam action captioned United States of America, ex. rel. Ralph D. Williams v. Health Management Associates, Inc., et al. filed in the U.S. District Court for the Middle District of Georgia. Tenet and four of its hospital subsidiaries are defendants in the qui tam action, which alleges that the arrangements the hospitals had with HMM violated the federal and state anti-kickback statutes and false claims acts. Both the Georgia Attorney General's Office, on behalf of the State of Georgia, and the U.S. Attorney's Office, on behalf of the United States, have intervened in the qui tam action. We submitted answers to the complaints filed by the relator, the State of Georgia and the United States on July 15, 2014 following the court's denial of our motions to dismiss in June 2014. The parties have agreed to stay discovery in the case until March 31, 2015.

If we or our subsidiaries were determined to have violated the anti-kickback statutes, the government could require us to reimburse related government program payments received during the subject period, assess civil monetary penalties including treble damages, exclude individuals or subsidiaries from participation in federal healthcare programs, or seek criminal sanctions against current or former employees of our hospital subsidiary companies or the hospital companies themselves. In a Bill of Information filed on July 23, 2014 with the U.S. District Court for the Northern District of Georgia, Atlanta Division, the U.S. Attorney for that District asserted charges of one count of criminal conspiracy against a former owner of HMM (a non-employee of Tenet) related to the agreements between HMM and the Tenet hospitals described above. In a separate Bill of Information also filed with the court on July 23, 2014, the U.S. Attorney asserted charges of one count of criminal conspiracy against a former employee of a Tenet hospital, but such charges relate to an unaffiliated entity. It is impossible at this time to predict with any certainty the amount and terms of any potential resolution of these matters; however, we believe the amount of the reserve established continues to reflect our current estimate of probable liability. We will continue to vigorously defend against the government's allegations.

Except with respect to the matter settled in January 2013 involving one hospital, as discussed above, our analysis of each of these pending reviews is still ongoing, and we are unable to predict with any certainty the progress or final outcome of any discussions with government agencies at this time. Management has established reserves of approximately $38 million in the aggregate for our potential obligations with respect to all of the hospitals under review for their billing practices for kyphoplasty and cardiac defibrillator implantation procedures, as well as the Clinica de la Mama matters. Changes in the reserves may be required in the future as additional information becomes available. We cannot predict the ultimate resolution of any governmental review, and the final amounts paid in settlement or otherwise, if any, could differ materially from our currently recorded reserves.

Ordinary Course Matters

We are also subject to other claims and lawsuits arising in the ordinary course of business, including potential claims related to, among other things, the care and treatment provided at our hospitals and outpatient facilities, the application of various federal and state labor laws, tax audits and other matters. Although the results of these claims and lawsuits cannot be predicted with certainty, we believe that the ultimate resolution of these ordinary course claims and lawsuits will not have a material effect on our business, financial condition or results of operations.

In addition, in October 2014, we received court approval of a final agreement to settle a previously disclosed class action lawsuit captioned Doe, et al. v. Jo Ellen Smith Medical Foundation, which was filed in the Civil District

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Court for the Parish of Orleans in Louisiana in March 1997. The plaintiffs pursued a claim for tortious invasion of privacy due to the fact that in April 1996 patient identifying records from a psychiatric hospital we closed in 1995 were temporarily placed in an unsecure location while the hospital was undergoing renovations. The court certified a class of over 5,000 persons; however, only eight individuals (in addition to the two plaintiffs) have been identified to date in the class certification process. The plaintiffs have asserted each member of the class is entitled to common damages under a theory of presumed "common damage" regardless of whether or not any members of the class were actually harmed or even aware of the incident. In an effort to avoid protracted litigation, the parties settled this matter in June 2014 for a maximum potential payment of $32.5 million, subject to the number and type of claims asserted by the class members between January 15 and March 31, 2015. The settlement will be funded in amounts and on a schedule to be agreed to by the parties. In the three months ended June 30, 2014, we established a reserve of $17 million, recorded in discontinued operations, to reflect our current estimate of probable liability for this matter based on anticipated levels of class member participation.

New claims or inquiries may be initiated against us from time to time. These matters could (1) require us to pay substantial damages or amounts in judgments or settlements, which, individually or in the aggregate, could exceed amounts, if any, that may be recovered under our insurance policies where coverage applies and is available, (2) cause us to incur substantial expenses, (3) require significant time and attention from our management, and (4) cause us to close or sell hospitals or otherwise modify the way we conduct business.

The table below presents reconciliations of the beginning and ending liability balances in connection with legal settlements and related costs recorded during the nine months ended September 30, 2014 and 2013:

	Balances at Beginning of Period	Litigation and Investigation Costs	Cash Payments	Balances at End of Period
Nine Months Ended September 30, 2014				
Continuing operations	$ 64	$ 19	$ (10)	$ 73
Discontinued operations	6	18	(6)	18
	$ 70	$ 37	$ (16)	$ 91
Nine Months Ended September 30, 2013				
Continuing operations	$ 5	$ 3	$ (3)	$ 5
Discontinued operations	5	2	(1)	6
	$ 10	$ 5	$ (4)	$ 11

For the nine months ended September 30, 2014 and 2013, we recorded costs of $37 million and $5 million, respectively, primarily related to costs associated with various legal proceedings and governmental reviews.

NOTE 11. INCOME TAXES

During the nine months ended September 30, 2014, we recorded a net income tax benefit of $11 million, which includes, among other things: (1) $3 million of income tax expense to increase our valuation allowance for deferred tax assets; (2) $7 million of income tax benefit related to tax basis adjustments for state tax purposes on the Vanguard acquisition; (3) $4 million of income tax benefit related to certain amended state tax returns; and (4) $4 million of income tax benefit related to other tax adjustments. The increase in the valuation allowance relates to an estimated decrease in the future utilization of certain state net operating loss carryovers.

During the nine months ended September 30, 2014, we reduced our estimated liabilities for uncertain tax positions by $3 million, net of related deferred tax assets. The total amount of unrecognized tax benefits as of September 30, 2014 was $40 million, of which $31 million, if recognized, would impact our effective tax rate and income tax expense (benefit) from continuing operations.

Our practice is to recognize interest and penalties related to income tax matters in income tax expense in our consolidated statements of operations. Total accrued interest and penalties on unrecognized tax benefits as of September 30, 2014 were $5 million, all of which related to continuing operations.

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As of September 30, 2014, approximately $2 million of unrecognized federal and state tax benefits, as well as reserves for interest and penalties, may decrease in the next 12 months as a result of the settlement of audits, the filing of amended tax returns or the expiration of statutes of limitations.

NOTE 12. EARNINGS (LOSS) PER COMMON SHARE

The table below is a reconciliation of the numerators and denominators of our basic and diluted earnings (loss) per common share calculations for net income (loss) from continuing operations for the three and nine months ended September 30, 2014 and 2013. Net income (loss) is expressed in millions and weighted average shares are expressed in thousands.

	Net Income (Loss) (Numerator)	Weighted Average Shares (Denominator)	Per-Share Amount
Three Months Ended September 30, 2014			
Net income available to Tenet Healthcare Corporation common shareholders for basic earnings per share	$ 10	98,036	$ 0.10
Effect of dilutive stock options, restricted stock units and deferred compensation units	—	2,890	—
Net income available to Tenet Healthcare Corporation common shareholders for diluted earnings per share	$ 10	100,926	$ 0.10
Three Months Ended September 30, 2013			
Net income available to Tenet Healthcare Corporation common shareholders for basic earnings per share	$ 33	100,894	$ 0.33
Effect of dilutive stock options, restricted stock units and deferred compensation units	—	2,204	(0.01)
Net income available to Tenet Healthcare Corporation common shareholders for diluted earnings per share	$ 33	103,098	$ 0.32
Nine Months Ended September 30, 2014			
Net loss attributable to Tenet Healthcare Corporation common shareholders for basic earnings per share	$ (27)	97,625	$ (0.27)
Effect of dilutive stock options, restricted stock units and deferred compensation units	—	—	—
Net loss attributable to Tenet Healthcare Corporation common shareholders for diluted earnings per share	$ (27)	97,625	$ (0.27)
Nine Months Ended September 30, 2013			

Net loss attributable to Tenet Healthcare Corporation common shareholders for basic earnings per share	$ (106)	102,669	$ (1.03)
Effect of dilutive stock options, restricted stock units and deferred compensation units	—	—	—
Net loss attributable to Tenet Healthcare Corporation common shareholders for diluted earnings per share	$ (106)	102,669	$ (1.03)

All potentially dilutive securities were excluded from the calculation of diluted loss per share for the nine months ended September 30, 2014 and 2013 because we did not report income from continuing operations available to shareholders in those periods. In circumstances where we do not have income from continuing operations available to shareholders, the effect of stock options and other potentially dilutive securities is anti-dilutive, that is, a loss from continuing operations available to shareholders has the effect of making the diluted loss per share less than the basic loss per share. Had we generated income from continuing operations available to shareholders in those periods, the effect (in thousands) of employee stock options, restricted stock units and deferred compensation units on the diluted shares calculation would have been an increase in shares of 2,332 for the nine months ended September 30, 2014 and 827 for the nine months ended September 30, 2013.

NOTE 13. FAIR VALUE MEASUREMENTS

Our financial assets and liabilities recorded at fair value on a recurring basis primarily relate to investments in available-for-sale securities held by our captive insurance subsidiaries. The following tables present information about our assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013. The following tables also indicate the fair value hierarchy of the valuation techniques we utilized to determine such fair values. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. We consider a security that trades at least weekly to have an active

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market. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

Investments	September 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable securities — current	$ 2	$ 2	$ —	$ —
Investments in Reserve Yield Plus Fund	2	—	2	—
Marketable debt securities — noncurrent	62	26	35	1
	$ 66	$ 28	$ 37	$ 1

Investments	December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable securities — current	$ 1	$ 1	$ —	$ —
Investments in Reserve Yield Plus Fund	2	—	2	—
Marketable debt securities — noncurrent	62	23	38	1
	$ 65	$ 24	$ 40	$ 1

The fair value of our long-term debt is based on quoted market prices (Level 1). At September 30, 2014 and December 31, 2013, the estimated fair value of our long-term debt was approximately 103.8% and 103.5%, respectively, of the carrying value of the debt.

NOTE 14. ACQUISITIONS

During the nine months ended September 30, 2014, we acquired a majority interest in Texas Regional Medical Center at Sunnyvale, a 70-bed hospital in Sunnyvale, Texas, a suburban community east of Dallas, and completed our acquisition of Emanuel Medical Center, a 209-bed hospital in Turlock, California, located approximately 100 miles

southeast of San Francisco. We also acquired four ambulatory surgery centers, three urgent care centers, one diagnostic imaging center and various physician practice entities in the same period. The fair value of the consideration conveyed in the acquisitions (the “purchase price”) was $185 million.

We are required to allocate the purchase prices of the acquired businesses to assets acquired or liabilities assumed and, if applicable, noncontrolling interests based on their fair values. The excess of the purchase price allocation over those fair values is recorded as goodwill. We are in process of finalizing the purchase price allocations, including valuations of the acquired property and equipment, primarily for several recent acquisitions; therefore, those purchase price allocations are subject to adjustment once the valuations are completed.

Preliminary purchase price allocations for the acquisitions made during the nine months ended September 30, 2014 are as follows:

Current assets	$ 19
Property and equipment	104
Goodwill	137
Current liabilities	(21)
Long-term liabilities	(19)
Redeemable noncontrolling interests	(21)
Noncontrolling interests	(14)
Net cash paid	$ 185

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The goodwill generated from these transactions, the majority of which will be deductible for income tax purposes, can be attributed to the benefits that we expect to realize from operating efficiencies and increased reimbursement. Approximately $7 million in transaction costs related to prospective and closed acquisitions were expensed during the nine months ended September 30, 2014, and are included in impairment and restructuring charges, and acquisition-related costs in the accompanying Condensed Consolidated Statement of Operations.

Acquisition of Vanguard

Effective October 1, 2013, we acquired the common stock of Vanguard for $21 per share in an all cash transaction. Vanguard owned and operated 28 hospitals (plus one more under construction, which was recently completed), 39 outpatient centers and five health plans with approximately 140,000 members, serving communities in Arizona, California, Illinois, Massachusetts, Michigan and Texas. We paid approximately $4.3 billion to acquire Vanguard, including the assumption of $2.5 billion of Vanguard's net debt. We have completed the analysis required to finalize the purchase price allocation for this acquisition and related disclosures. We have revised our Condensed Consolidated Balance Sheet as of December 31, 2013 to reflect the impact of these adjustments.

The purchase price allocation for our Vanguard acquisition is as follows:

Current assets	$ 976
Property and equipment	2,830
Other long term assets	152
Other intangible assets	155
Goodwill	2,460
Current liabilities	(1,193)
Deferred taxes-long term	(103)
Other long-term liabilities	(3,711)
Redeemable noncontrolling interests in equity of consolidated subsidiaries	(258)
Noncontrolling interests	(7)
Net cash paid	$ 1,301

Pro Forma Information—Unaudited

The following table provides certain pro forma financial information for Tenet as if the Vanguard acquisition had occurred at the beginning of the year ended December 31, 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net operating revenues	$ 4,179	$ 3,748	$ 12,147	$ 11,574
Net income (loss) from continuing operations, before income taxes	$ 1	$ (220)	$ 6	$ (418)

NOTE 15. SEGMENT INFORMATION

Our core business is hospital operations and other, which is focused on owning and operating acute care hospitals and outpatient facilities. We also own various related healthcare businesses. At September 30, 2014, our subsidiaries operated 80 hospitals, with a total of 20,762 licensed beds, primarily serving urban and suburban communities, as well as 198 outpatient centers and six health plans.

We operate revenue cycle management and patient communications and engagement services businesses under our Conifer subsidiary. In addition, Conifer operates a management services business that supports value-based performance through clinical integration, financial risk management and population health management. At September 30, 2014, Conifer provided services to more than 700 Tenet and non-Tenet hospital and other clients

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nationwide. Conifer's two largest customers, Tenet and Catholic Health Initiatives, together comprised 82% and 78% of Conifer's net operating revenues for the nine months ended September 30, 2014 and 2013, respectively.

The following tables include amounts for each of our reportable segments and the reconciling items necessary to agree to amounts reported in the accompanying Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations:

	September 30, 2014	December 31, 2013
Assets:		
Hospital operations and other	$ 16,988	$ 16,194
Conifer	324	256
Total	$ 17,312	$ 16,450

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Capital expenditures:				
Hospital operations and other	$ 207	$ 139	$ 717	$ 387
Conifer	4	3	17	11
Total	$ 211	$ 142	$ 734	$ 398
Net operating revenues:				
Hospital operations and other	$ 4,031	$ 2,275	$ 11,707	$ 6,840
Conifer				
Tenet	148	92	426	278
Other customers	148	133	440	377
	4,327	2,500	12,573	7,495
Intercompany eliminations	(148)	(92)	(426)	(278)
Total	$ 4,179	$ 2,408	$ 12,147	$ 7,217
Adjusted EBITDA:				
Hospital operations and other	$ 412	$ 252	$ 1,167	$ 802
Conifer	47	36	139	96
Total	$ 459	$ 288	$ 1,306	$ 898
Depreciation and amortization:				
Hospital operations and other	$ 202	$ 114	$ 594	$ 339

Conifer	5	5	15	15
Total	$ 207	$ 119	$ 609	$ 354
Adjusted EBITDA	$ 459	$ 288	$ 1,306	$ 898
Depreciation and amortization	(207)	(119)	(609)	(354)
Impairment and restructuring charges, and acquisition-related costs	(37)	(20)	(90)	(45)
Litigation and investigation costs	(4)	(1)	(19)	(3)
Interest expense	(186)	(91)	(558)	(292)
Loss from early extinguishment of debt	(24)	—	(24)	(348)
Investment earnings	—	—	—	1
Net income (loss) from continuing operations before income taxes	$ 1	$ 57	$ 6	$ (143)

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NOTE 16. RECENTLY ISSUED ACCOUNTING STANDARDS

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" ("ASU 2014-08"). ASU 2014-08 changes the requirements for reporting discontinued operations in FASB Accounting Standards Codification Subtopic 205-20, such that a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. ASU 2014-08 requires an entity to present, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections, respectively, of the statement of financial position, as well as additional disclosures about discontinued operations. Additionally, ASU 2014-08 requires disclosures about a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements and expands the disclosures about an entity's significant continuing involvement with a discontinued operation. We are currently evaluating the potential impact of this guidance, which will be effective for us beginning in 2015.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We are currently evaluating the potential impact of this guidance, which will be effective for us beginning in 2017.

NOTE 17. SUBSEQUENT EVENTS

Acquisition of Revenue Cycle Services for Physician Practices—In October 2014, Conifer acquired SPi Healthcare, a provider of revenue cycle management, health information management and software solutions for independent and provider-owned physician practices. The base purchase price was $235 million. We have not yet finalized the analysis required to complete the purchase price allocation for this acquisition and the related disclosures.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION TO MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of this section, Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), is to provide a narrative explanation of our financial statements that enables investors to better understand our business, to enhance our overall financial disclosures, to provide the context within which our financial information may be analyzed, and to provide information about the quality of, and potential variability of, our financial condition, results of operations and cash flows. Our core business is hospital operations and other, which is focused on owning and operating acute care hospitals and outpatient facilities. We also operate revenue cycle management, patient communications and engagement services, and management services businesses through our Conifer Health Solutions, LLC ("Conifer") subsidiary, which is a separate reportable business segment. MD&A, which should be read in conjunction with the accompanying Condensed Consolidated Financial Statements, includes the following sections:

- Management Overview
- Forward-Looking Statements
- Sources of Revenue
- Results of Operations
- Liquidity and Capital Resources
- Off-Balance Sheet Arrangements
- Critical Accounting Estimates

Unless otherwise indicated, all financial and statistical information included in MD&A relates to our continuing operations, with dollar amounts expressed in millions (except per share, per admission, per adjusted patient admission, per patient day, per adjusted patient day and per visit amounts). Continuing operations information includes the results of (i) our same-hospital operations, as described below, (ii) Vanguard Health Systems, Inc. ("Vanguard") and its consolidated subsidiaries, which we acquired effective October 1, 2013, but only for the three and nine months ended September 30, 2014, and (iii) Resolute Health Hospital, a newly constructed facility opened in June 2014, Texas Regional Medical Center at Sunnyvale, in which we acquired a majority interest in June 2014, and Emanuel Medical Center, which we acquired in August 2014, in each case only for the period of time from such opening or acquisition to September 30, 2014. Continuing operations information excludes the results of our hospitals and other businesses that have previously been classified as discontinued operations for accounting purposes. Same-hospital information includes the results of our operations for all periods presented, including the same 49 hospitals operated during the three and nine months ended September 30, 2014 and 2013, but excludes the results of (i) legacy Vanguard operations, (ii) Resolute Health Hospital, Texas Regional Medical Center and Emanuel Medical Center, and (iii) our hospitals and other businesses that have previously been classified as discontinued operations for accounting purposes. We present same-hospital data because we believe it provides investors with useful information regarding the performance of our hospitals and other operations that are comparable for the periods presented.

MANAGEMENT OVERVIEW

RECENT DEVELOPMENTS

Acquisition of Revenue Cycle Services for Physician Practices—In October 2014, Conifer acquired SPi Healthcare, a provider of revenue cycle management, health information management and software solutions for independent and provider-owned physician practices. We believe the combined organization will drive incremental growth for Conifer in the physician revenue cycle marketplace.

STRATEGIES AND TRENDS

We are committed to providing the communities our hospitals, outpatient centers and other healthcare facilities serve with high quality, cost-effective healthcare while growing our business, increasing our profitability and creating long-term value for our shareholders. We believe that our success in increasing our profitability depends in part on our success in executing the strategies and managing the trends discussed below.

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Core Business Strategy—We are focused on providing high quality care to patients through our hospitals and outpatient centers, and offering an array of business process solutions primarily to healthcare providers through Conifer. With respect to our hospitals and outpatient business, we seek to offer superior quality and patient services to meet community needs, to make capital and other investments in our facilities and technology to remain competitive, to recruit and retain physicians, to increase the number of outpatient centers we own, and to negotiate favorable contracts with managed care and other private payers. With respect to business process services, we provide comprehensive operational management for revenue cycle functions, including patient access, health information management, revenue integrity and patient financial services. We also offer communication and engagement solutions to optimize the relationship between providers and patients. In addition, our management services offerings have expanded to support value-based performance through clinical integration, financial risk management and population health management.

Commitment to Quality—We have made significant investments in the last decade in equipment, technology, education and operational strategies designed to improve clinical quality at our hospitals and outpatient centers. As a result of our efforts, our Hospital Compare Core Measures scores from the Centers for Medicare and Medicaid Services (“CMS”) have consistently exceeded the national average since the end of 2005, and major national private payers have also recognized our achievements relative to quality. These designations are expected to become increasingly important as governmental and private payers move to pay-for-performance models, and the commercial market moves to more narrow networks and other methods designed to encourage covered individuals to use certain facilities over others. Through our Commitment to Quality and Performance Excellence Program initiatives, we continually collaborate with physicians to implement the most current evidence-based medicine techniques to improve the way we provide care, while using labor management tools and supply chain initiatives to reduce variable costs. We believe the use of these practices will promote the most effective and efficient utilization of resources and result in shorter lengths of stay, as well as reductions in redundant ancillary services and readmissions for hospitalized patients. In general, we believe that quality of care improvements may have the effect of reducing costs, increasing payments from Medicare and certain managed care payers for our services, and increasing physician and patient satisfaction, which may improve our volumes.

Development Strategies—We remain focused on opportunities to increase our hospital and outpatient revenues through organic growth and acquisitions, and to expand our Conifer services business.

From time to time, we build new facilities, make strategic acquisitions of healthcare assets and companies, and enter into joint venture arrangements or affiliations with healthcare businesses in markets where we believe our operating strategies can improve performance and create shareholder value. Most recently, we purchased Emanuel Medical Center, a 209-bed hospital located in Northern California, we opened a newly constructed 128-bed hospital and wellness campus in New Braunfels, Texas, and we acquired a majority interest in a 70-bed regional medical center in a suburban community east of Dallas. In addition, in May 2014, we announced a joint venture with Texas Tech University Health Sciences Center at El Paso to develop and build a new 140-bed teaching hospital and a medical office building in west El Paso, Texas. In the nine months ended September 30, 2014, we also acquired four ambulatory surgery centers, three urgent care centers, one diagnostic imaging center and various physician practice entities.

Historically, our outpatient services have generated significantly higher margins for us than inpatient services. During the nine months ended September 30, 2014, we derived approximately 37% of our net patient revenues from outpatient services. By expanding our outpatient business, we expect to increase our profitability over time. We believe that growth by strategic acquisitions, when and if opportunities are available, can supplement the growth we believe we can generate organically in our existing markets. In addition, we expect that our new national MedPost brand will assist us in growing our urgent care business as part of our broader strategy to offer more services to patients and to expand into faster-growing, less capital intensive, higher-margin businesses. Furthermore, we continually evaluate collaboration opportunities with outpatient facilities, healthcare providers, physician groups and others in our markets to maximize effectiveness, reduce costs and build clinically integrated networks that provide quality services across the care continuum.

We intend to continue expanding Conifer's revenue cycle management, patient communications and engagement services, and management services businesses by marketing these services to non-Tenet hospitals and other healthcare-related entities. Conifer provides services to more than 700 Tenet and non-Tenet hospital and other clients nationwide. We believe this business has the potential over time to generate high margins and improve our results of

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operations. Conifer's service offerings have also expanded to support value-based performance through clinical integration, financial risk management and population health management, which are integral parts of the healthcare industry's movement toward accountable care organizations ("ACOs") and similar risk-based or capitated contract models. In addition to hospitals, clients for these services include health plans, self-insured employers and other entities. In October 2014, Conifer acquired SPi Healthcare, which is expected to drive Conifer's incremental growth in the areas of revenue cycle management, health information management and software solutions services for independent and provider-owned physician practices.

Realizing HIT Incentive Payments and Other Benefits—Beginning in the year ended December 31, 2011, we began achieving compliance with certain of the health information technology ("HIT") requirements under the American Recovery and Reinvestment Act of 2009 ("ARRA"). In 2013, we recognized approximately $96 million of Medicare electronic health record ("EHR") and Medicaid ARRA HIT incentives. During the nine months ended September 30, 2014, we recognized approximately $72 million of Medicare and Medicaid EHR ARRA incentives. These incentives partially offset the operating expenses and capital costs we have incurred and continue to incur to invest in HIT systems. We expect to recognize additional incentives in the future. Furthermore, we believe that the operational benefits of HIT, including improved clinical outcomes and increased operating efficiencies, will contribute to our long-term ability to grow our business.

General Economic Conditions—We believe that high unemployment rates in some of the markets our hospitals serve and other adverse economic conditions are continuing to have a negative impact on our bad debt expense levels and payer mix. However, as the economy recovers, we expect to experience improvements in these metrics relative to current levels. We believe our volumes were positively impacted in the nine months ended September 30, 2014 by incremental market share we generated through improved physician alignment and service line expansion, insurance coverage for a greater number of individuals as a result of the Affordable Care Act, and a strengthening economy.

Improving Operating Leverage—We believe targeted capital spending on critical growth opportunities for our hospitals, emphasis on higher-demand clinical service lines (including outpatient lines), focus on expanding our outpatient business, implementation of new payer contracting strategies, and improved quality metrics at our hospitals will improve our patient volumes. We believe our patient volumes have been constrained by the slow pace of the current economic recovery, increased competition, utilization pressure by managed care organizations, the effects of higher patient co-pays and deductibles, and demographic trends. We continue to pursue integrated contracting models that maximize our system-wide skills and capabilities in conjunction with our strong market positions to accommodate new payment models. In several markets, we have formed clinical integration organizations, which are collaborations with independent physicians and hospitals to develop ongoing clinical initiatives designed to control costs and improve the quality of care delivered to patients. For example, in January 2014, our Abrazo Health network of hospitals in the Phoenix, Arizona area entered into a joint venture with Dignity Health to fund and expand the Arizona Care Network, a physician-led, physician-governed ACO and clinically integrated network focused on improved quality through shared resources, advanced technology and clinical best practices that align with emerging models of care delivery. Arrangements like these provide a foundation for negotiating with plans under an ACO structure or other risk-sharing model.

Impact of Affordable Care Act—We anticipate that we will benefit over time from the provisions of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 ("Affordable Care Act" or "ACA") that have begun to extend insurance coverage through Medicaid or private insurance to a broader segment of the U.S. population. Although we are unable to predict the ultimate net effect of the Affordable Care Act on our future results of operations, and while there have been and will continue to be some reductions in reimbursement rates by governmental payers, we began to receive reimbursement for caring for previously uninsured and underinsured patients in 2014. Through collaborative efforts with local community organizations, we have launched a campaign under the banner "Path to Health" to assist our hospitals in educating and enrolling uninsured patients in insurance plans. Effective January 1, 2014, four of the states in which we operate (Arizona, California, Illinois and Massachusetts) expanded their Medicaid programs under the ACA. A fifth state (Michigan) expanded its Medicaid program effective April 1, 2014.

Our ability to execute on these strategies and manage these trends is subject to a number of risks and uncertainties that may cause actual results to be materially different from expectations. In addition, it is critical that we continue to make steady and measurable progress in 2014 in successfully integrating Vanguard's business and operations

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into our business processes. For information about risks and uncertainties that could affect our results of operations, see the Forward-Looking Statements and Risk Factors sections in Part I of our Annual Report and the Risk Factors section in Part II of this report.

RESULTS OF OPERATIONS—OVERVIEW

Selected Operating Statistics for All Continuing Operations Hospitals—The following table shows certain selected operating statistics for our continuing operations on a total hospital basis, which includes the results of the 28 hospitals we acquired from Vanguard on October 1, 2013, Texas Regional Medical Center, in which we acquired a majority interest on June 3, 2014, Resolute Health Hospital, which we opened on June 24, 2014, and Emanuel Medical Center, which we acquired on August 1, 2014, in each case only for the period of time from such acquisition or opening to September 30, 2014. We believe this information is useful to investors because it reflects our current portfolio of hospitals and the significant increase in the scale of our operations as a result of these investments.

	Total Hospital Continuing Operations Three Months Ended September 30,		
	2014	2013	Increase (Decrease)
Total admissions	199,914	121,569	64.4 %
Adjusted patient admissions(1)	345,787	196,761	75.7 %
Paying admissions (excludes charity and uninsured)	188,924	112,760	67.5 %
Charity and uninsured admissions	10,990	8,809	24.8 %
Admissions through emergency department	123,147	75,512	63.1 %
Emergency department visits	719,835	400,345	79.8 %
Total emergency department admissions and visits	842,982	475,857	77.2 %
Surgeries — inpatient	55,339	34,971	58.2 %
Surgeries — outpatient	123,100	76,084	61.8 %
Total surgeries	178,439	111,055	60.7 %
Patient days — total	921,228	569,833	61.7 %
Adjusted patient days(1)	1,574,346	912,483	72.5 %
Average length of stay (days)	4.61	4.69	(1.7) %
Average licensed beds	20,692	13,180	57.0 %
Utilization of licensed beds(2)	48.4 %	47.0 %	1.4 %(3)
Total visits	2,125,002	1,071,421	98.3 %
Paying visits (excludes charity and uninsured)	1,954,980	956,871	104.3 %
Charity and uninsured visits	170,022	114,550	48.4 %
Net inpatient revenues	$ 2,463	$ 1,502	64.0 %
Net outpatient revenues	$ 1,441	$ 845	70.5 %
Net inpatient revenue per admission	$ 12,320	$ 12,355	(0.3) %

Net inpatient revenue per patient day	$ 2,674	$ 2,636	1.4 %
Net outpatient revenue per visit	$ 678	$ 789	(14.1) %
Net patient revenue per adjusted patient admission(1)	$ 11,290	$ 11,928	(5.3) %
Net patient revenue per adjusted patient day(1)	$ 2,480	$ 2,572	(3.6) %

(1) Adjusted patient admissions/days represents actual patient admissions/days adjusted to include outpatient services by multiplying actual patient admissions/days by the sum of gross inpatient revenues and outpatient revenues and dividing the results by gross inpatient revenues.

(2) Utilization of licensed beds represents patient days divided by number of days in the period divided by average licensed beds.

(3) The change is the difference between the amounts shown for the three months ended September 30, 2014 compared to the three months ended September 30, 2013.

Operating Statistics on a Same-Hospital Basis—Our results of operations have been and continue to be influenced by industry-wide and company-specific challenges, including constrained volume growth and high levels of bad debt, that have affected our revenue growth and operating expenses. We believe our results of operations for our most recent fiscal quarter best reflect recent trends we are experiencing with respect to volumes, revenues and expenses; therefore, we have provided below information about these metrics for the three months ended September 30, 2014 and 2013 on a same-hospital basis, where noted, excluding the results of the 28 hospitals we acquired from Vanguard on

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October 1, 2013, Texas Regional Medical Center, in which we acquired a majority interest on June 3, 2014, Resolute Health Hospital, which we opened on June 24, 2014, and Emanuel Medical Center, which we acquired on August 1, 2014.

	Same-Hospital Continuing Operations Three Months Ended September 30,					
Admissions, Patient Days and Surgeries	2014		2013		Increase (Decrease)	
Total admissions	127,118		121,569		4.6	%
Adjusted patient admissions(1)	208,229		196,761		5.8	%
Paying admissions (excludes charity and uninsured)	118,580		112,760		5.2	%
Charity and uninsured admissions	8,538		8,809		(3.1)	%
Admissions through emergency department	80,328		75,512		6.4	%
Paying admissions as a percentage of total admissions	93.3	%	92.8	%	0.5	%(2)
Charity and uninsured admissions as a percentage of total admissions	6.7	%	7.2	%	(0.5)	%(2)
Emergency department admissions as a percentage of total admissions	63.2	%	62.1	%	1.1	%(2)
Surgeries — inpatient	35,570		34,971		1.7	%
Surgeries — outpatient	91,472		76,084		20.2	%
Total surgeries	127,042		111,055		14.4	%
Patient days — total	594,664		569,833		4.4	%
Adjusted patient days(1)	962,054		912,483		5.4	%
Average length of stay (days)	4.68		4.69		(0.2)	%
Number of acute care hospitals (at end of period)	49		49		—	
Licensed beds (at end of period)	13,231		13,180		0.4	%
Average licensed beds	13,231		13,180		0.4	%
Utilization of licensed beds(3)	48.9	%	47.0	%	1.9	%(2)

(1) Adjusted patient admissions/days represents actual patient admissions/days adjusted to include outpatient services by multiplying actual patient admissions/days by the sum of gross inpatient revenues and outpatient revenues and dividing the results by gross inpatient revenues.

(2) The change is the difference between the amounts shown for the three months ended September 30, 2014 compared to the three months ended September 30, 2013.

(3) Utilization of licensed beds represents patient days divided by number of days in the period divided by average licensed beds.

Total same-hospital admissions increased by 5,549, or 4.6%, in the three months ended September 30, 2014 compared to the three months ended September 30, 2013. Total surgeries increased by 14.4% in the three months ended September 30, 2014 compared to the same period in 2013, comprised of a 20.2% increase in outpatient surgeries primarily due to our outpatient development strategies and a 1.7% increase in inpatient surgeries. Our emergency department admissions increased 6.4% in the three months ended September 30, 2014 compared to the same period in the prior year. We believe our volumes were positively impacted by incremental market share we generated through improved physician alignment and service line expansion, insurance coverage for a greater number of individuals as a

result of the ACA, and a strengthening economy. Charity and uninsured admissions decreased 3.1% in the three months ended September 30, 2014 compared to the three months ended September 30, 2013 primarily due to Medicaid expansion in California and health insurance exchange coverage under the ACA.

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	Same-Hospital Continuing Operations Three Months Ended September 30,					
Outpatient Visits	2014		2013		Increase (Decrease)	
Total visits	1,155,852		1,071,421		7.9	%
Paying visits (excludes charity and uninsured)	1,042,636		956,871		9.0	%
Charity and uninsured visits	113,216		114,550		(1.2)	%
Emergency department visits	433,174		400,345		8.2	%
Surgery visits	91,472		76,084		20.2	%
Paying visits as a percentage of total visits	90.2	%	89.3	%	0.9	%(1)
Charity and uninsured visits as a percentage of total visits	9.8	%	10.7	%	(0.9)	%(1)

(1) The change is the difference between the amounts shown for the three months ended September 30, 2014 compared to the three months ended September 30, 2013.

Total same-hospital outpatient visits increased 84,431, or 7.9%, in the three months ended September 30, 2014 compared to the three months ended September 30, 2013, which included 9.0% growth for paying visits. Approximately 81% of the growth in outpatient visits was organic.

Outpatient surgery visits increased by 20.2% in the three months ended September 30, 2014 compared to the same period in 2013. Charity and uninsured outpatient visits decreased by 1.2% in the three months ended September 30, 2014 compared to the three months ended September 30, 2013.

	Same-Hospital Continuing Operations Three Months Ended September 30,			
Revenues	2014	2013	Increase (Decrease)	
Net operating revenues	$ 2,684	$ 2,408	11.5	%
Revenues from the uninsured	$ 150	$ 167	(10.2)	%
Net inpatient revenues(1)	$ 1,602	$ 1,502	6.7	%
Net outpatient revenues(1)	$ 924	$ 845	9.3	%

(1) Net inpatient revenues and net outpatient revenues are components of net operating revenues. Net inpatient

revenues include self-pay revenues of $56 million and $68 million for the three months ended September 30, 2014 and 2013, respectively. Net outpatient revenues include self-pay revenues of $94 million and $99 million for the three months ended September 30, 2014 and 2013, respectively.

Net operating revenues increased by $276 million, or 11.5%, on a same-hospital basis in the three months ended September 30, 2014 compared to the same period in 2013, primarily due to increases in inpatient and outpatient volumes, improved managed care pricing, and increased revenues from services provided by our Conifer subsidiary to third parties. Revenues from the uninsured decreased 10.2% in the three months ended September 30, 2014 compared to the three months ended September 30, 2013 primarily due to Medicaid expansion in California and health insurance exchange coverage under the ACA. Net operating revenues in the three months ended September 30, 2014 included $74 million of Medicaid disproportionate share hospital (“DSH”) and other state-funded subsidy revenues compared to $72 million in the same period in 2013 on a same-hospital basis. During the three months ended September 30, 2013, we recognized $19 million of net revenues related to the California provider fee program; we did not recognize any revenues related to this program during the three months ended September 30, 2014 because the current program has not been approved by CMS yet. Net patient revenues increased by 7.6% in the three months ended September 30, 2014 compared to the same period in 2013.

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	Same-Hospital Continuing Operations Three Months Ended September 30,		Increase
Revenues on a Per Admission, Per Patient Day and Per Visit Basis	2014	2013	(Decrease)
Net inpatient revenue per admission	$ 12,602	$ 12,355	2.0 %
Net inpatient revenue per patient day	$ 2,694	$ 2,636	2.2 %
Net outpatient revenue per visit	$ 799	$ 789	1.3 %
Net patient revenue per adjusted patient admission(1)	$ 12,131	$ 11,928	1.7 %
Net patient revenue per adjusted patient day(1)	$ 2,626	$ 2,572	2.1 %

(1) Adjusted patient admissions/days represents actual patient admissions/days adjusted to include outpatient services by multiplying actual patient admissions/days by the sum of gross inpatient revenues and outpatient revenues and dividing the results by gross inpatient revenues.

Net inpatient revenue per admission and net outpatient revenue per visit increased 2.0% and 1.3%, respectively, in the three months ended September 30, 2014 compared to the same period in 2013. The increases were primarily due to improved terms of our managed care contracts.

	Same-Hospital Continuing Operations Three Months Ended September 30,		Increase
Provision for Doubtful Accounts	2014	2013	(Decrease)
Provision for doubtful accounts	$ 163	$ 210	(22.4)%
Provision for doubtful accounts as a percentage of net operating revenues before provision for doubtful accounts	5.7 %	8.0 %	(2.3) %(1)
Collection rate on self-pay accounts(2)	27.5 %	28.8 %	(1.3) %(1)
Collection rate on commercial managed care accounts	98.3 %	98.3 %	— %(1)

(1) The change is the difference between the amounts shown for the three months ended September 30, 2014 compared to the three months ended September 30, 2013.

(2) Self-pay accounts receivable are comprised of both uninsured and balance after insurance receivables.

Provision for doubtful accounts decreased by $47 million, or 22.4%, in the three months ended September 30, 2014 compared to the same period in 2013. The decrease in the provision for doubtful accounts primarily related to the

decrease in revenues from the uninsured and the impact of favorable experience related to our estimated future recoveries in the 2014 period, partially offset by the 130 basis point decrease in our self-pay collection rate, as well as higher patient co pays and deductibles. Our self-pay collection rate, which is the blended collection rate for uninsured and balance after insurance accounts receivable, was approximately 27.5% at September 30, 2014 and 28.8% at September 30, 2013.

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	Same-Hospital Continuing Operations Three Months Ended September 30,		Increase
Selected Operating Expenses	2014	2013	(Decrease)
Hospital Operations and other			
Salaries, wages and benefits	$ 1,150	$ 1,032	11.4 %
Supplies	416	387	7.5 %
Other operating expenses	587	526	11.6 %
Total	$ 2,153	$ 1,945	10.7 %
Conifer			
Salaries, wages and benefits	$ 182	$ 140	30.0 %
Other operating expenses	67	49	36.7 %
Total	$ 249	$ 189	31.7 %
Total			
Salaries, wages and benefits	$ 1,332	$ 1,172	13.7 %
Supplies	416	387	7.5 %
Other operating expenses	654	575	13.7 %
Total	$ 2,402	$ 2,134	12.6 %
Rent/lease expense(1)			
Hospital Operations and other	$ 37	$ 41	(9.8) %
Conifer	5	3	66.7 %
Total	$ 42	$ 44	(4.5) %
Hospital Operations and other(2)			
Salaries, wages and benefits per adjusted patient day	$ 1,193	$ 1,130	5.6 %
Supplies per adjusted patient day	432	424	1.9 %
Other operating expenses per adjusted patient day	593	565	5.0 %
Total per adjusted patient day	$ 2,218	$ 2,119	4.7 %
Salaries, wages and benefits per adjusted patient admission	$ 5,513	$	