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Form 10-Q
November 05, 2018
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0000070318 us-gaap:OperatingSegmentsMember thc:AmbulatoryCareSegmentMember 2017-07-01 2017-09-30
0000070318 us-gaap:IntersegmentEliminationMember 2018-07-01 2018-09-30 0000070318
us-gaap:OperatingSegmentsMember srt:ParentCompanyMember thc:ConiferSegmentMember 2017-07-01
2017-09-30 0000070318 us-gaap:OperatingSegmentsMember srt:ParentCompanyMember
thc:ConiferSegmentMember 2018-07-01 2018-09-30 0000070318 us-gaap:OperatingSegmentsMember
srt:ParentCompanyMember thc:ConiferSegmentMember 2017-01-01 2017-09-30 0000070318
us-gaap:IntersegmentEliminationMember 2018-01-01 2018-09-30 0000070318 us-gaap:OperatingSegmentsMember
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2017-09-30 0000070318 us-gaap:OperatingSegmentsMember srt:ParentCompanyMember
thc:ConiferSegmentMember 2018-01-01 2018-09-30 0000070318 us-gaap:IntersegmentEliminationMember
2017-07-01 2017-09-30 0000070318 us-gaap:OperatingSegmentsMember thc:OtherCustomersMember
thc:ConiferSegmentMember 2018-01-01 2018-09-30 0000070318 thc:ConiferHealthSolutionsLLCMember

2018-09-30 0000070318 thc:UnitedSurgicalPartnersInternationalMember 2018-09-30 0000070318 srt:MinimumMember thc:ConiferSegmentMember 2018-01-01 2018-09-30 0000070318 thc:EuropeanSurgicalPartnersLtdMember 2018-08-17 2018-08-17 thc:segment xbrli:shares thc:investment xbrli:pure iso4217:USD thc:hospital iso4217:USD xbrli:shares thc:center thc:lawsuit thc:plan thc:director thc:state thc:system

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, 2018

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 x No ¨

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes x No ¨

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

Smaller reporting company ¨ Emerging growth company ¨

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

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

At October 31, 2018, there were 102,498,300 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, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 500	$611
Accounts receivable (less allowance for doubtful accounts of $898 at December 31, 2017)	2,484	2,616
Inventories of supplies, at cost	307	289
Income tax receivable	27	5
Assets held for sale	128	1,017
Other current assets	1,046	1,035
Total current assets	**4,492**	**5,573**
Investments and other assets	1,462	1,543
Deferred income taxes	348	455
Property and equipment, at cost, less accumulated depreciation and amortization ($5,169 at September 30, 2018 and $4,739 at December 31, 2017)	6,888	7,030
Goodwill	7,313	7,018
Other intangible assets, at cost, less accumulated amortization ($990 at September 30, 2018 and $883 at December 31, 2017)	1,762	1,766
Total assets	**$ 22,265**	**$23,385**
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 672	$146
Accounts payable	1,065	1,175
Accrued compensation and benefits	814	848
Professional and general liability reserves	230	200
Accrued interest payable	330	256
Liabilities held for sale	71	480
Other current liabilities	1,042	1,227
Total current liabilities	**4,224**	**4,332**
Long-term debt, net of current portion	14,178	14,791
Professional and general liability reserves	627	654
Defined benefit plan obligations	476	536
Deferred income taxes	36	36
Other long-term liabilities	622	631
Total liabilities	**20,163**	**20,980**
Commitments and contingencies		
Redeemable noncontrolling interests in equity of consolidated subsidiaries	1,444	1,866
Equity:		
Shareholders' equity:		
Common stock, $0.05 par value; authorized 262,500,000 shares; 150,806,763 shares issued at September 30, 2018 and 149,384,952 shares issued at December 31, 2017	7	7
Additional paid-in capital	4,733	4,859
Accumulated other comprehensive loss	(202)	(204)

Accumulated deficit	(2,231)	(2,390)
Common stock in treasury, at cost, 48,360,191 shares at September 30, 2018 and 48,413,169 shares at December 31, 2017	(2,415)	(2,419)
Total shareholders' deficit	**(108)**	**(147)**
Noncontrolling interests	**766**	**686**
Total equity	**658**	**539**
Total liabilities and equity	**$ 22,265**	**$ 23,385**

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,	
	2018	**2017**	**2018**	**2017**
Net operating revenues:				
Net operating revenues before provision for doubtful accounts		$4,941		$15,310
Less: Provision for doubtful accounts		355		1,109
Net operating revenues	**$4,489**	**4,586**	**$13,694**	**14,201**
Equity in earnings of unconsolidated affiliates	**33**	**38**	**97**	**95**
Operating expenses:				
Salaries, wages and benefits	2,116	2,264	6,478	6,990
Supplies	726	740	2,248	2,285
Other operating expenses, net	1,094	1,120	3,181	3,466
Electronic health record incentives	—	(1)	(1)	(8)
Depreciation and amortization	204	219	602	662
Impairment and restructuring charges, and acquisition-related costs	46	329	123	403
Litigation and investigation costs	9	6	28	12
Net losses (gains) on sales, consolidation and deconsolidation of facilities	7	(104)	(111)	(142)
Operating income	**320**	**51**	**1,243**	**628**
Interest expense	(249)	(257)	(758)	(775)
Other non-operating expense, net	—	(4)	(2)	(14)
Loss from early extinguishment of debt	—	(138)	(2)	(164)
Income (loss) from continuing operations, before income taxes	**71**	**(348)**	**481**	**(325)**
Income tax benefit (expense)	(6)	60	(120)	105
Income (loss) from continuing operations, before discontinued operations	**65**	**(288)**	**361**	**(220)**
Discontinued operations:				
Income (loss) from operations	—	(1)	3	(1)
Income tax expense	—	—	—	—
Income (loss) from discontinued operations	**—**	**(1)**	**3**	**(1)**
Net income (loss)	**65**	**(289)**	**364**	**(221)**
Less: Net income available to noncontrolling interests	74	78	248	254
Net income available (loss attributable) to Tenet Healthcare Corporation common shareholders	**$(9)**	**$(367)**	**$116**	**$(475)**
Amounts available (attributable) to Tenet Healthcare Corporation common shareholders				
Income (loss) from continuing operations, net of tax	$(9)	$(366)	$113	$(474)
Income (loss) from discontinued operations, net of tax	—	(1)	3	(1)
Net income available (loss attributable) to Tenet Healthcare Corporation common shareholders	**$(9)**	**$(367)**	**$116**	**$(475)**
Earnings (loss) per share available (attributable) to Tenet Healthcare Corporation common shareholders:				
Basic				
Continuing operations	$(0.09)	$(3.63)	$1.11	$(4.72)
Discontinued operations	—	(0.01)	0.03	(0.01)
	$(0.09)	**$(3.64)**	**$1.14**	**$(4.73)**
Diluted				
Continuing operations	$(0.09)	$(3.63)	$1.09	$(4.72)
Discontinued operations	—	(0.01)	0.03	(0.01)

	$(0.09)	**$(3.64)**	**$1.12**	**$(4.73)**
Weighted average shares and dilutive securities outstanding (in thousands):				
Basic	102,402	100,812	101,980	100,475
Diluted	102,402	100,812	103,802	100,475

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,	
	2018	2017	2018	2017
Net income (loss)	$65	$(289)	$364	$(221)
Other comprehensive income:				
Amortization of net actuarial loss included in other non-operating expense, net	3	4	11	12
Unrealized gains on securities held as available-for-sale	—	2	—	5
Sale of foreign subsidiary	37	—	37	—
Foreign currency translation adjustments	—	5	(3)	14
Other comprehensive income before income taxes	**40**	**11**	**45**	**31**
Income tax benefit (expense) related to items of other comprehensive income	1	(7)	—	(11)
Total other comprehensive income, net of tax	**41**	**4**	**45**	**20**
Comprehensive net income (loss)	**106**	**(285)**	**409**	**(201)**
Less: Comprehensive income available to noncontrolling interests	**74**	**78**	**248**	**254**
Comprehensive income available (loss attributable) to Tenet Healthcare Corporation common shareholders	**$32**	**$(363)**	**$161**	**$(455)**

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,	
	2018	**2017**
Net income (loss)	**$364**	**$(221)**
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	602	662
Provision for doubtful accounts	—	1,109
Deferred income tax expense (benefit)	110	(145)
Stock-based compensation expense	34	44
Impairment and restructuring charges, and acquisition-related costs	123	403
Litigation and investigation costs	28	12
Net gains on sales, consolidation and deconsolidation of facilities	(111)	(142)
Loss from early extinguishment of debt	2	164
Equity in earnings of unconsolidated affiliates, net of distributions received	9	(4)
Amortization of debt discount and debt issuance costs	33	33
Pre-tax loss (income) from discontinued operations	(3)	1
Other items, net	(22)	(19)
Changes in cash from operating assets and liabilities:		
Accounts receivable	(36)	(1,046)
Inventories and other current assets	73	97
Income taxes	(14)	(14)
Accounts payable, accrued expenses and other current liabilities	(194)	(141)
Other long-term liabilities	(82)	7
Payments for restructuring charges, acquisition-related costs, and litigation costs and settlements	**(113)**	**(88)**
Net cash used in operating activities from discontinued operations, excluding income taxes	**(4)**	**(3)**
Net cash provided by operating activities	**799**	**709**
Cash flows from investing activities:		
Purchases of property and equipment — continuing operations	(404)	(492)
Purchases of businesses or joint venture interests, net of cash acquired	(97)	(41)
Proceeds from sales of facilities and other assets	498	826
Proceeds from sales of marketable securities, long-term investments and other assets	165	20
Purchases of equity investments	(43)	(64)
Other long-term assets	5	(16)
Other items, net	(4)	(6)
Net cash provided by investing activities	**120**	**227**
Cash flows from financing activities:		
Repayments of borrowings under credit facility	(505)	(850)
Proceeds from borrowings under credit facility	505	850
Repayments of other borrowings	(238)	(4,099)
Proceeds from other borrowings	15	3,788
Debt issuance costs	—	(62)
Distributions paid to noncontrolling interests	(217)	(178)
Proceeds from sales of noncontrolling interests	14	29
Purchases of noncontrolling interests	(643)	(722)
Proceeds from exercise of stock options and employee stock purchase plan	15	5

Other items, net	24	16
Net cash used in financing activities	**(1,030)**	**(1,223)**
Net decrease in cash and cash equivalents	(111)	(287)
Cash and cash equivalents at beginning of period	611	716
Cash and cash equivalents at end of period	**$500**	**$429**
Supplemental disclosures:		
Interest paid, net of capitalized interest	$(652)	$(617)
Income tax payments, net	$(24)	$(54)

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 diversified healthcare services company. At September 30, 2018, we operated 68 hospitals, 21 surgical hospitals and approximately 475 outpatient centers in the United States through our subsidiaries, partnerships and joint ventures, including USPI Holding Company, Inc. ("USPI"). Our Conifer Holdings, Inc. ("Conifer") subsidiary provides healthcare business process services in the areas of hospital and physician revenue cycle management and value-based care solutions to healthcare systems, as well as individual hospitals, physician practices, self-insured organizations, health plans and other entities.

This quarterly report supplements our Annual Report on Form 10-K for the year ended December 31, 2017 ("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).

Effective January 1, 2018, we adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09") using a modified retrospective method of application to all contracts existing on January 1, 2018. 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. For our Hospital Operations and other and Ambulatory Care segments, the adoption of ASU 2014-09 resulted in changes to our presentation for and disclosure of revenue primarily related to uninsured or underinsured patients. Prior to the adoption of ASU 2014-09, a significant portion of our provision for doubtful accounts related to self-pay patients, as well as co-pays, co-insurance amounts and deductibles owed to us by patients with insurance. Under ASU 2014-09, the estimated uncollectable amounts due from these patients are generally considered implicit price concessions that are a direct reduction to net operating revenues, with a corresponding material reduction in the amounts presented separately as provision for doubtful accounts. For the nine months ended September 30, 2018, we recorded approximately $1.052 billion of implicit price concessions as a direct reduction of net operating revenues that would have been recorded as provision for doubtful accounts prior to the adoption of ASU 2014-09. At January 1, 2018, we reclassified $171 million of revenues related to patients who were still receiving inpatient care in our facilities at that date from accounts receivable, less allowance for doubtful accounts, to contract assets, which are included in other current assets in the accompanying Condensed Consolidated Balance Sheet at September 30, 2018. The adoption of ASU 2014-09 also resulted in changes to our presentation and disclosure of customer contract assets and liabilities and the assessment of variable consideration under customer contracts, which are further discussed in Note 3.

Also effective January 1, 2018, we early adopted ASU 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220)" ("ASU 2018-02"), which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded income tax effects resulting from the Tax Cuts and Jobs Act (the "Tax Act") and requires certain disclosures about stranded income tax effects. We applied the amendments in ASU 2018-02 in the period of adoption, resulting in a reclassification of $36 million of stranded income tax effects from accumulated other comprehensive loss to accumulated deficit in the three months ended March 31, 2018.

In addition, we adopted ASU 2016-01, “Financial Instruments-Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”) effective January 1, 2018, which supersedes the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and require equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income. Upon adoption of ASU 2016-01 on January 1, 2018, we recorded a cumulative effect adjustment to decrease accumulated deficit by approximately $7 million for unrealized gains on equity securities.

Also effective January 1, 2018, we adopted ASU 2016-15, “Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments” and ASU 2016-18, “Statement of Cash Flows (Topic 230) Restricted Cash,” both of which were applied using a retrospective transition method to each period presented. The adoption of these standards did not have any effect on our statements of cash flows.

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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 are required to make 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 month periods ended September 30, 2018 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 implicit price concessions; fluctuations in interest rates; levels of malpractice insurance expense and settlement trends; impairment of long-lived assets and goodwill; restructuring charges; losses, costs and insurance recoveries related to natural disasters and other weather-related occurrences; litigation and investigation costs; acquisitions and dispositions of facilities and other assets; gains (losses) on sales, consolidation and deconsolidation of facilities; 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 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: changes in federal and state healthcare regulations; 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; the number of patients with high-deductible health insurance plans; hospital performance data on quality measures and patient satisfaction, as well as standard charges for our services; any unfavorable publicity about us, or our joint venture partners, that impacts our relationships with physicians and patients; and the timing of elective procedures. These considerations apply to year-to-year comparisons as well.

Translation of Foreign Currencies

We divested European Surgical Partners Limited ("Aspen") in August of 2018; prior to that time, Aspen's accounts were measured in its local currency (the pound sterling) and then translated into U.S. dollars. All assets and liabilities were translated using the current rate of exchange at the balance sheet date. Results of operations were translated using the average rates prevailing throughout the period of operations. Translation gains or losses resulting from changes in exchange rates were accumulated in shareholders' equity until we divested Aspen.

Net Operating Revenues

ASU 2014-09 was issued to clarify the principles for recognizing revenue, to remove inconsistencies and weaknesses in revenue recognition requirements, and to provide a more robust framework for addressing revenue issues. Our adoption of ASU 2014-09 was accomplished using a modified retrospective method of application, and our accounting policies related to revenues were revised accordingly effective January 1, 2018, as discussed below.

We recognize net operating revenues in the period in which we satisfy our performance obligations under contracts by transferring our services to our customers. Net operating revenues are recognized in the amounts to which we expect to be entitled, which are the transaction prices allocated to the distinct services. Net operating revenues for our Hospital Operations and other and Ambulatory Care segments primarily consist of net patient service revenues, 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. Net operating revenues for our Conifer segment primarily consist of revenues from providing revenue cycle management services to healthcare systems, as well as individual hospitals, physician practices, self-insured organizations, health plans and other entities.

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Net Patient Service Revenues—We report net patient service revenues at the amounts that reflect the consideration to which we expect to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including managed care payers and government programs) and others, and they include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, we bill our patients and third-party payers several days after the services are performed or shortly after discharge. Revenues are recognized as performance obligations are satisfied.

We determine performance obligations based on the nature of the services we provide. We recognize revenues for performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. We believe that this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving inpatient acute care services. We measure performance obligations from admission to the point when there are no further services required for the patient, which is generally the time of discharge. We recognize revenues for performance obligations satisfied at a point in time, which generally relate to patients receiving outpatient services, when: (1) services are provided; and (2) we do not believe the patient requires additional services.

Because our patient service performance obligations relate to contracts with a duration of less than one year, we have elected to apply the optional exemption provided in FASB Accounting Standards Codification ("ASC") 606-10-50-14(a) and, therefore, we are not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

We determine the transaction price based on gross charges for services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with our *Compact*, and implicit price concessions provided primarily to uninsured patients. We determine our estimates of contractual adjustments and discounts based on contractual agreements, our discount policies and historical experience. We determine our estimate of implicit price concessions based on our historical collection experience with these classes of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. The financial statement effects of using this practical expedient are not materially different from an individual contract approach.

Gross charges are retail charges. They are not the same as actual pricing, and they generally do not reflect what a hospital is ultimately paid and, therefore, are not displayed in our consolidated statements of operations. Hospitals are typically paid amounts that are negotiated with insurance companies or are set by the government. Gross charges are used to calculate Medicare outlier payments and to determine certain elements of payment under managed care contracts (such as stop-loss payments). Because Medicare requires that a hospital's gross charges be the same for all patients (regardless of payer category), gross charges are what hospitals charge all patients prior to the application of discounts and allowances.

Revenues under the traditional fee-for-service Medicare and Medicaid programs are based primarily on prospective payment systems. Retrospectively determined cost-based revenues under these programs, which were more prevalent in earlier periods, and certain other payments, such as Indirect Medical Education, Direct Graduate Medical Education, disproportionate share hospital and bad debt expense reimbursement, which are based on our hospitals' cost reports, are estimated using historical trends and current factors. Cost report settlements under these programs are subject to audit by Medicare and Medicaid auditors and administrative and judicial review, and it can take several

years until final settlement of such matters is determined and completely resolved. Because the laws, regulations, instructions and rule interpretations governing Medicare and Medicaid reimbursement are complex and change frequently, the estimates we record could change by material amounts.

We have a system and estimation process for recording Medicare net patient revenue and estimated cost report settlements. As a result, we record accruals to reflect the expected final settlements on our cost reports. For filed cost reports, we record the accrual based on those cost reports and subsequent activity, and record a valuation allowance against those cost reports based on historical settlement trends. The accrual for periods for which a cost report is yet to be filed is recorded based on estimates of what we expect to report on the filed cost reports, and a corresponding valuation allowance is recorded as previously described. Cost reports generally must be filed within five months after the end of the annual cost reporting period. After the cost report is filed, the accrual and corresponding valuation allowance may need to be adjusted.

Settlements with third-party payers for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient

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care using the most likely outcome method. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and our historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations.

Revenues under managed care plans are based primarily on payment terms involving predetermined rates per diagnosis, per-diem rates, discounted fee-for-service rates and/or other similar contractual arrangements. These revenues are also subject to review and possible audit by the payers, which can take several years before they are completely resolved. The payers are billed for patient services on an individual patient basis. An individual patient's bill is subject to adjustment on a patient-by-patient basis in the ordinary course of business by the payers following their review and adjudication of each particular bill. We estimate the discounts for contractual allowances at the individual hospital level utilizing billing data on an individual patient basis. At the end of each month, on an individual hospital basis, we estimate our expected reimbursement for patients of managed care plans based on the applicable contract terms. Contractual allowance estimates are periodically reviewed for accuracy by taking into consideration known contract terms, as well as payment history. We believe our estimation and review process enables us to identify instances on a timely basis where such estimates need to be revised. We do not believe there were any adjustments to estimates of patient bills that were material to our revenues. In addition, on a corporate-wide basis, we do not record any general provision for adjustments to estimated contractual allowances for managed care plans. Managed care accounts, net of contractual allowances recorded, are further reduced to their net realizable value through implicit price concessions based on historical collection trends for these payers and other factors that affect the estimation process.

We know of no claims, disputes or unsettled matters with any payer that would materially affect our revenues for which we have not adequately provided in the accompanying Condensed Consolidated Financial Statements.

Generally, patients who are covered by third-party payers are responsible for related co-pays, co-insurance and deductibles, which vary in amount. We also provide services to uninsured patients and offer uninsured patients a discount from standard charges. We estimate the transaction price for patients with co-pays, co-insurance and deductibles and for those who are uninsured based on historical collection experience and current market conditions. Under our *Compact* and other uninsured discount programs, the discount offered to certain uninsured patients is recognized as a contractual allowance, which reduces net operating revenues at the time the self-pay accounts are recorded. The uninsured patient accounts, net of contractual allowances recorded, are further reduced to their net realizable value at the time they are recorded through implicit price concessions based on historical collection trends for self-pay accounts and other factors that affect the estimation process. There are various factors that can impact collection trends, such as changes in the economy, which in turn have an impact on unemployment rates and the number of uninsured and underinsured patients, the volume of patients through our emergency departments, the increased burden of co-pays, co-insurance amounts and deductibles to be made by patients with insurance, and business practices related to collection efforts. These factors continuously change and can have an impact on collection trends and our estimation process. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient revenues in the period of the change.

We have provided implicit price concessions, primarily to uninsured patients and patients with co-pays, co-insurance and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts we expect to collect based on our collection history with similar patients. Although outcomes vary, our policy is to attempt to collect amounts due from patients, including co-pays, co-insurance and deductibles due from patients with insurance, at the time of service while complying with all federal and state statutes and regulations, including, but not limited to, the Emergency Medical Treatment and Active Labor

Act (“EMTALA”). Generally, as required by EMTALA, patients may not be denied emergency treatment due to inability to pay. Therefore, services, including the legally required medical screening examination and stabilization of the patient, are performed without delaying to obtain insurance information. In non-emergency circumstances or for elective procedures and services, it is our policy to verify insurance prior to a patient being treated; however, there are various exceptions that can occur. Such exceptions can include, for example, instances where (1) we are unable to obtain verification because the patient’s insurance company was unable to be reached or contacted, (2) a determination is made that a patient may be eligible for benefits under various government programs, such as Medicaid or Victims of Crime, and it takes several days or weeks before qualification for such benefits is confirmed or denied, and (3) under physician orders we provide services to patients that require immediate treatment.

We also provide charity care to patients who are financially unable to pay for the healthcare services they receive. Most patients who qualify for charity care are charged a per-diem amount for services received, subject to a cap. Except for the per-diem amounts, our policy is not to pursue collection of amounts determined to qualify as charity care; therefore, we do not report these amounts in net operating revenues. Patient advocates from Conifer’s Medical Eligibility Program screen patients in

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the hospital to determine whether those patients meet eligibility requirements for financial assistance programs. They also expedite the process of applying for these government programs.

Conifer Revenues—Our Conifer segment recognizes revenue from its contracts when Conifer's performance obligations are satisfied, which is generally as services are rendered. Revenue is recognized in an amount that reflects the consideration to which Conifer expects to be entitled.

At contract inception, Conifer assesses the services specified in its contracts with customers and identifies a performance obligation for each distinct contracted service. Conifer identifies the performance obligations and considers all the services provided under the contract. Conifer generally considers the following distinct services as separate performance obligations:
•revenue cycle management services;
•value-based care services;
•patient communication and engagement services;
•consulting services; and
•other client-defined projects.
Conifer's contracts generally consist of fixed-price, volume-based or contingency-based fees. Conifer's long-term contracts typically provide for Conifer to deliver recurring monthly services over a multi-year period. The contracts are typically priced such that Conifer's monthly fee to its customer represents the value obtained by the customer in the month for those services. Such multi-year service contracts may have upfront fees related to transition or integration work performed by Conifer to set up the delivery for the ongoing services. Such transition or integration work typically does not result in a separately identifiable obligation; thus, the fees and expenses related to such work are deferred and recognized over the life of the related contractual service period. Revenue for fixed-priced contracts is typically recognized at the time of billing unless evidence suggests that the revenue is earned or Conifer's obligations are fulfilled in a different pattern. Revenue for volume-based contracts is typically recognized as the services are being performed at the contractually billable rate, which is generally a percentage of collections or a percentage of client net patient revenue.

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 $500 million and $611 million at September 30, 2018 and December 31, 2017, respectively. At September 30, 2018 and December 31, 2017, our book overdrafts were approximately $235 million and $311 million, respectively, which were classified as accounts payable.

At September 30, 2018 and December 31, 2017, approximately $165 million and $179 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, and approximately $28 million and $30 million, respectively, of total cash and cash equivalents in the accompanying Condensed Consolidated Balance Sheets were intended for the operations of our health plan-related businesses.

Also at September 30, 2018 and December 31, 2017, we had $86 million and $117 million, respectively, of property and equipment purchases accrued for items received but not yet paid. Of these amounts, $61 million and $79 million, respectively, were included in accounts payable.

During the nine months ended September 30, 2018 and 2017, we entered into non-cancellable capital leases of approximately $94 million and $82 million, respectively, primarily for equipment.

Other Intangible Assets

The following tables provide information regarding other intangible assets, which are included in the accompanying Condensed Consolidated Balance Sheets at September 30, 2018 and December 31, 2017:

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	Gross Carrying Amount	Accumulated Amortization	Net Book Value
At September 30, 2018:			
Capitalized software costs	$1,680	$ (842)	$838
Trade names	102	—	102
Contracts	865	(72)	793
Other	105	(76)	29
Total	**$2,752**	**$ (990)**	**$1,762**

	Gross Carrying Amount	Accumulated Amortization	Net Book Value
At December 31, 2017:			
Capitalized software costs	$1,582	$ (754)	$828
Trade names	102	—	102
Contracts	859	(60)	799
Other	106	(69)	37
Total	**$2,649**	**$ (883)**	**$1,766**

Estimated future amortization of intangibles with finite useful lives at September 30, 2018 is as follows:

	Total	Three Months Ending December 31, 2018	Years Ending 2019	2020	2021	2022	Later Years
Amortization of intangible assets	$1,090	$41	$152	$127	$108	$97	$565

We recognized amortization expense of $134 million and $125 million in the accompanying Condensed Consolidated Statements of Operations for the nine months ended September 30, 2018 and 2017, respectively.

Investments in Debt and Equity Securities

Prior to the adoption of ASU 2016-01 on January 1, 2018, we classified investments in debt and equity securities as either available-for-sale, held-to-maturity or as part of a trading portfolio. At December 31, 2017, we had no significant investments in securities classified as either held-to-maturity or trading. We carried securities classified as available-for-sale at fair value. We reported their unrealized gains and losses, net of taxes, as accumulated other comprehensive income (loss) unless we determined that a loss was other-than-temporary, at which point we would record a loss in our consolidated statements of operations. We included realized gains or losses in our consolidated statements of operations based on the specific identification method.

Subsequent to the adoption of ASU 2016-01 on January 1, 2018, we classify investments in debt securities as either available-for-sale, held-to-maturity or as part of a trading portfolio, but these classifications are no longer applicable to equity securities. At September 30, 2018, we had no significant investments in debt securities classified as either held-to-maturity or trading. We carry debt securities classified as available-for-sale at fair value. We report their unrealized gains and losses, net of taxes, as accumulated other comprehensive income (loss) unless we determine that a loss is other-than-temporary, at which point we would record a loss in our consolidated statements of operations. We carry equity securities at fair value, and we report their unrealized gains and losses in other non-operating expense, net, in our consolidated statements of operations. We include realized gains or losses in our consolidated statements of operations based on the specific identification method.

Investments in Unconsolidated Affiliates

We control 228 of the facilities within our Ambulatory Care segment and, therefore, consolidate their results. We account for many of the facilities our Ambulatory Care segment operates (107 of 335 at September 30, 2018), as well as additional facilities in which our Hospital Operations and other segment holds ownership interests, under the equity method as investments in unconsolidated affiliates and report only our share of net income available to the investee as equity in earnings of unconsolidated affiliates in the accompanying Condensed Consolidated Statements of Operations. Summarized financial information for the equity method investees within our Ambulatory Care segment is included in the following table, as well as summarized financial information for the four North Texas hospitals in which we held minority interests that were operated by our Hospital Operations and other segment through the divestiture of these investments effective March 1, 2018. We recorded a gain of approximately $13 million in the nine months ended September 30, 2018 due to the sales of our minority interests in

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these hospitals. For investments acquired during the reported periods, amounts reflect 100% of the investee's results beginning on the date of our acquisition of the investment.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net operating revenues	$546	$635	$1,667	$1,819
Net income	$126	$143	$374	$376
Net income available to the investees	$80	$93	$240	$242

NOTE 2. ACCOUNTS RECEIVABLE

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

	September 30, 2018	December 31, 2017
Continuing operations:		
Patient accounts receivable	$ 2,336	$ 3,376
Allowance for doubtful accounts	—	(898)
Estimated future recoveries	139	132
Net cost reports and settlements payable and valuation allowances	7	4
	2,482	2,614
Discontinued operations	2	2
Accounts receivable	**$ 2,484**	**$ 2,616**

Accounts that are pursued for collection through Conifer's business offices are maintained on our hospitals' books and reflected in patient accounts receivable. For patient accounts receivable resulting from revenue recognized prior to January 1, 2018, an allowance for doubtful accounts was established to reduce the carrying value of such receivables to their estimated net realizable value. Generally, we estimated 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. At December 31, 2017, our allowance for doubtful accounts was 26.6% of our patient accounts receivable. Under the provisions of ASC 2014-09, which we adopted effective January 1, 2018, when we have an unconditional right to payment, subject only to the passage of time, the right is treated as a receivable. Patient accounts receivable, including billed accounts and unbilled accounts for which we have the unconditional right to payment, and estimated amounts due from third-party payers for retroactive adjustments, are receivables if our right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. For patient accounts receivable subsequent to our adoption of ASU 2014-09 on January 1, 2018, the estimated uncollectable amounts are generally considered implicit price concessions that are a direct reduction to patient accounts receivable rather than allowance for doubtful accounts.

We also provide charity care to patients who are unable to pay for the healthcare services they receive. Most patients who qualify for charity care are charged a per-diem amount for services received, subject to a cap. Except for the per-diem amounts, our policy is not to pursue collection of amounts determined to qualify as charity care; therefore, we do not report these amounts in net operating revenues. 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. These payments are intended to mitigate our cost of uncompensated care, as well as reduced Medicaid funding levels. The following table shows our estimated costs (based on selected operating expenses, which include salaries, wages and benefits, supplies and other operating expenses and which exclude the costs of our health plan businesses) of caring for our self-pay patients and charity care patients, as well as revenues attributable to Medicaid DSH and other

supplemental revenues we recognized in the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Estimated costs for:				
Self-pay patients	$172	$164	$477	$484
Charity care patients	28	29	91	92
Total	$200	$193	$568	$576
Medicaid DSH and other supplemental revenues	$233	$140	$651	$462

At September 30, 2018, we had approximately $147 million and $318 million of receivables recorded in other current assets and investments and other assets, respectively, and approximately $61 million and $68 million of payables recorded in

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other current liabilities and other long-term liabilities, respectively, in the accompanying Condensed Consolidated Balance Sheet related to California's provider fee program. At December 31, 2017, we had approximately $312 million and $266 million of receivables recorded in other current assets and investments and other assets, respectively, and approximately $159 million and $49 million recorded in other current liabilities and other long-term liabilities, respectively, in the accompanying Condensed Consolidated Balance Sheet related to California's provider fee program.

NOTE 3. CONTRACT BALANCES

Hospital Operations and Other Segment

Under the provisions of ASU 2014-09, which we adopted effective January 1, 2018, amounts related to services provided to patients for which we have not billed and that do not meet the conditions of unconditional right to payment at the end of the reporting period are contract assets. For our Hospital Operations and other segment, our contract assets consist primarily of services that we have provided to patients who are still receiving inpatient care in our facilities at the end of the reporting period. Our Hospital Operations and other segment's contract assets are included in other current assets on the accompanying Condensed Consolidated Balance Sheet at September 30, 2018. The opening and closing balances of contract assets for our Hospital Operations and other segment are as follows:

	2018	2017
January 1,	$171	$ —
September 30,	152	—
Increase/(decrease)	**$(19)**	**$ —**

The increase in the contract asset balances from the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 is due to the implementation of ASU 2014-09 effective January 1, 2018 using a modified retrospective method of application. Prior to January 1, 2018, amounts related to services provided to patients for which we had not billed were included in accounts receivable, less allowance for doubtful accounts, on our consolidated balance sheets. Approximately 89% of our Hospital Operations and other segment's contract assets meet the conditions for unconditional right to payment and are reclassified to patient receivables within 90 days.

Conifer Segment

Conifer enters into contracts with customers to sell revenue cycle management and other services, such as value-based care, consulting and project services. The payment terms and conditions in our customer contracts vary. In some cases, customers are invoiced in advance and (for other than fixed-price fee arrangements) a true-up to actual fee is included on a subsequent invoice. In other cases, payment is due in arrears. In addition, some contracts contain performance incentives, penalties and other forms of variable consideration. When the timing of Conifer's delivery of services is different from the timing of payments made by the customers, Conifer recognizes either unbilled revenue (performance precedes contractual right to invoice the customer) or deferred revenue (customer payment precedes Conifer service performance). In the following table, customers that prepay prior to obtaining control/benefit of the service are represented by deferred contract revenue until the performance obligations are satisfied. Unbilled revenue represents arrangements in which Conifer has provided services to and the customer has obtained control/benefit of services prior to the contractual invoice date. Contracts with payment in arrears are recognized as receivables in the month the service is performed.

The opening and closing balances of Conifer's receivables, contract asset, and current and long-term contract liabilities are as follows:

	Contract Liability-	Contract Liability-

	Receivables	Contract Asset-Unbilled Revenue	Current Deferred Revenue	Long-Term Deferred Revenue
January 1, 2018	$ 89	$ 10	$ 80	$ 21
September 30, 2018	89	11	74	21
Increase/(decrease)	**$ —**	**$ 1**	**$ (6)**	**$ —**
January 1, 2017	$ 67	$ 8	$ 76	$ 26
September 30, 2017	102	6	79	22
Increase/(decrease)	**$ 35**	**$ (2)**	**$ 3**	**$ (4)**

The difference between the opening and closing balances of Conifer's contract assets and contract liabilities are primarily related to prepayments for those customers who are billed in advance, changes in estimates related to metric-based

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services, and up-front integration services that are typically not distinct and are, therefore, recognized over the performance obligation period to which they relate. Our Conifer segment's receivables and contract assets are reported as part of other current assets in our accompanying Condensed Consolidated Balance Sheets, and our Conifer segment's current and long-term contract liabilities are reported as part of other current liabilities and other long-term liabilities, respectively, in our accompanying Condensed Consolidated Balance Sheets.

The amount of revenue Conifer recognized in the nine months ended September 30, 2018 and 2017 that was included in the opening current deferred revenue liability was $68 million and $72 million, respectively. This revenue consists primarily of prepayments for those customers who are billed in advance, changes in estimates related to metric-based services, and up-front integration services that are recognized over the services period.

Contract Costs

We have elected to apply the practical expedient provided by FASB ASC 340-40-25-4 and expense as incurred the incremental customer contract acquisition costs for contracts in which the amortization period of the asset that we otherwise would have recognized is one year or less. However, incremental costs incurred to obtain and fulfill customer contracts for which the amortization period of the asset that we otherwise would have recognized is longer than one year, which consist primarily of Conifer deferred contract setup costs, are capitalized and amortized on a straight-line basis over the lesser of their estimated useful lives or the term of the related contract. We recognized amortization expense of $3 million in both of the three month periods ended September 30, 2018 and 2017. During the nine months ended September 30, 2018 and 2017, we recognized amortization expense of $9 million and $7 million, respectively. At September 30, 2018 and December 31, 2017, the unamortized customer contract costs were $31 million and $35 million, respectively, and are presented as part of investments and other assets in the accompanying Condensed Consolidated Balance Sheets.

NOTE 4. ASSETS AND LIABILITIES HELD FOR SALE

In the three months ended December 31, 2017, three of our hospitals in the Chicago-area, as well as other operations affiliated with the hospitals, met the criteria to be classified as held for sale. As a result, we have classified these assets totaling $117 million as "assets held for sale" in current assets and the related liabilities of $55 million as "liabilities held for sale" in current liabilities on the accompanying Condensed Consolidated Balance Sheet at September 30, 2018. These assets and liabilities, which are in our Hospital Operations and other segment, were recorded at the lower of their carrying amount or their fair value less estimated costs to sell. We recorded impairment charges of $17 million and $73 million in the three months ended March 31, 2018 and December 31, 2017, respectively, for the write-down of the assets held for sale to their estimated fair value, less estimated costs to sell, as a result of the planned divestiture of these assets. On July 18, 2018, we announced the signing of a definitive agreement for the sale of these hospitals and hospital-affiliated operations.

In addition, certain assets and the related liabilities of our health plan in California were classified as held for sale in the three months ended December 31, 2017. We have classified $11 million of assets as "assets held for sale" in current assets and the related liabilities of $16 million as "liabilities held for sale" in current liabilities on the accompanying Condensed Consolidated Balance Sheet at September 30, 2018 related to this health plan. These assets and liabilities, which are in our Hospital Operations and other segment, were recorded at the lower of their carrying amount or their fair value less estimated costs to sell. There was no impairment recorded for a write-down of assets held for sale to their estimated fair value, less estimated costs to sell, as a result of the planned divestiture of this health plan.

Assets and liabilities classified as held for sale at September 30, 2018 were comprised of the following:

Accounts receivable	$56
Other current assets	18

Investments and other long-term assets	2
Property and equipment	45
Goodwill	7
Current liabilities	(64)
Long-term liabilities	(7)
Net assets held for sale	**$57**

In the three months ended September 30, 2018, we completed the sale of our nine Aspen facilities in the United Kingdom for net pre-tax cash proceeds of approximately $15 million; these assets met the criteria to be classified as held for sale in the three months ended September 30, 2017. We recorded impairment charges related to this planned divestiture in each

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of the three month periods ended September 30, 2018, June 30, 2018 and September 30, 2017 of $5 million, $4 million and $59 million, respectively, for the write-down of assets held for sale to their estimated fair value, less estimated costs to sell.

In the three months ended June 30, 2018, we completed the sale of our hospital, physician practices and other hospital-affiliated operations in St. Louis, Missouri; these assets met the criteria to be classified as held for sale in the three months ended December 31, 2017. As a result of this transaction, we recorded a gain on sale of approximately $12 million and received net pre-tax cash proceeds of $54 million in the three months ended June 30, 2018.

In the three months ended March 31, 2018, we completed the sale of MacNeal Hospital, which is located in a suburb of Chicago, and other operations affiliated with the hospital; these assets met the criteria to be classified as held for sale in the three months ended September 30, 2017. As a result of this transaction, we recorded a gain on sale of $88 million and received net pre-tax cash proceeds of $249 million in the nine months ended September 30, 2018.

The real estate related to Abrazo Maryvale Hospital in Arizona, which we closed in December 2017, was divested in the three months ended March 31, 2018, resulting in net pre-tax proceeds of $7 million. The real estate was classified as held for sale in the three months ended December 31, 2017.

In the three months ended September 30, 2017, we entered into a definitive agreement for the sale of our hospitals, physician practices and related assets in Philadelphia, Pennsylvania and the surrounding area. At that time, we recorded impairment charges of $235 million for the write-down of assets held for sale to their estimated fair value, less estimated costs to sell, as a result of this anticipated transaction. This transaction closed in January 2018, resulting in net pre-tax proceeds of $152.5 million in cash and a secured promissory note for $17.5 million in the nine months ended September 30, 2018.

The following table provides information on significant components of our business that have been disposed of since June 30, 2017 or are classified as held for sale at September 30, 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Significant disposals:				
Income (loss) from continuing operations, before income taxes				
Houston (includes an $111 million gain on sale in the 2017 period)	$—	$108	$—	$136
Philadelphia (includes $235 million of impairment charges in the 2017 period)	1	(233)	(10)	(245)
MacNeal (includes an $88 million gain on sale in the 2018 period)	(7)	5	90	23
Aspen (includes $59 million of impairment charges in the 2017 period)	(6)	(63)	(6)	(69)
Total	**$(12)**	**$(183)**	**$74**	**$(155)**
Significant planned divestitures classified as held for sale:				
Income (loss) from continuing operations, before income taxes				
Chicago-area (includes $17 million of impairment charges in the 2018 period)	$(10)	$(2)	$(25)	$(5)
Total	**$(10)**	**$(2)**	**$(25)**	**$(5)**

NOTE 5. IMPAIRMENT AND RESTRUCTURING CHARGES, AND ACQUISITION-RELATED COSTS

During the nine months ended September 30, 2018, we recorded impairment and restructuring charges and acquisition-related costs of $123 million, consisting of $29 million of impairment charges, $82 million of restructuring charges and $12 million of acquisition-related costs. Impairment charges consisted primarily of $17 million of charges to write-down assets held for sale to their estimated fair value, less estimated costs to sell, for certain of our Chicago-area facilities, $9 million of charges to write-down assets held for sale to their estimated fair value, less estimated costs to sell, for Aspen and $3 million of other impairment charges. Restructuring charges consisted of $47 million of employee severance costs, $10 million of contract and lease termination fees, and $25 million of other restructuring costs. Acquisition-related costs consisted of $8 million of transaction costs and $4 million of acquisition integration charges. Our impairment and restructuring charges and acquisition-related costs for the nine months ended September 30, 2018 were comprised of $81 million from our Hospital Operations and other segment, $20 million from our Ambulatory Care segment and $22 million from our Conifer segment.

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During the nine months ended September 30, 2017, we recorded impairment and restructuring charges and acquisition-related costs of $403 million, consisting of $326 million of impairment charges, $61 million of restructuring charges and $16 million of acquisition-related costs. Impairment charges consisted primarily of approximately $294 million of charges to write-down assets held for sale to their estimated fair value, less estimated costs to sell, for our Aspen and Philadelphia-area facilities, $29 million of impairment of two equity method investments and $3 million to write-down intangible assets. Restructuring charges consisted of $40 million of employee severance costs, $8 million of contract and lease termination fees, and $13 million of other restructuring costs. Acquisition-related costs consisted of $5 million of transaction costs and $11 million of acquisition integration charges. Our impairment and restructuring charges and acquisition-related costs for the nine months ended September 30, 2017 were comprised of $319 million from our Hospital Operations and other segment, $70 million from our Ambulatory Care segment and $14 million from our Conifer segment.

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

At September 30, 2018, our continuing operations consisted of three reportable segments, Hospital Operations and other, Ambulatory Care and Conifer. Our segments are reporting units used to perform our goodwill impairment analysis.

We periodically incur costs to implement restructuring efforts for specific operations, which are recorded in our consolidated statements 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.

NOTE 6. LONG-TERM DEBT AND LEASE OBLIGATIONS

The table below shows our long-term debt at September 30, 2018 and December 31, 2017:

	September 30, 2018	**December 31, 2017**
Senior unsecured notes:		
5.500% due 2019	$ 500	$ 500
6.750% due 2020	300	300
8.125% due 2022	2,800	2,800
6.750% due 2023	1,872	1,900
7.000% due 2025	478	500
6.875% due 2031	362	430
Senior secured first lien notes:		
4.750% due 2020	500	500
6.000% due 2020	1,800	1,800
4.500% due 2021	850	850
4.375% due 2021	1,050	1,050
4.625% due 2024	1,870	1,870
Senior secured second lien notes:		
7.500% due 2022	750	750
5.125% due 2025	1,410	1,410

Capital leases	424	431
Mortgage notes	78	77
Unamortized issue costs, note discounts and premiums	(194)	(231)
Total long-term debt	**14,850**	**14,937**
Less current portion	672	146
Long-term debt, net of current portion	**$ 14,178**	**$ 14,791**

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Senior Secured and Senior Unsecured Notes

In August 2018, we purchased approximately $38 million aggregate principal amount of our 6.875% senior unsecured notes due 2031 for approximately $36 million, including approximately $1 million in accrued and unpaid interest through the dates of purchase.

In May 2018, we purchased approximately $30 million aggregate principal amount of our 6.875% senior unsecured notes due 2031 for approximately $28 million. In connection with the purchase, we recorded a loss from early extinguishment of debt of approximately $1 million in the three months ended June 30, 2018, primarily related to the write-off of associated unamortized note discount and issuance costs, partially offset by the difference between the purchase price and the par value of the notes.

In March 2018, we purchased approximately $28 million aggregate principal amount of our 6.750% senior unsecured notes due 2023 and approximately $22 million aggregate principal amount of our 7.000% senior unsecured notes due 2025 for approximately $51 million, including approximately $1 million in accrued and unpaid interest through the dates of purchase. In connection with the purchase, we recorded a loss from early extinguishment of debt of approximately $1 million in the three months ended March 31, 2018, primarily related to the write-off of associated unamortized issuance costs.

Credit Agreement

We have a senior secured revolving credit facility (as amended, the "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. Obligations under the Credit Agreement, which has a scheduled maturity date of December 4, 2020, are guaranteed by substantially all of our domestic wholly owned hospital subsidiaries and are secured by a first-priority lien on the accounts receivable owned by us and the subsidiary guarantors. Outstanding revolving loans accrue interest at a base rate plus a margin ranging from 0.25% to 0.75% per annum or the London Interbank Offered Rate plus a margin ranging from 1.25% to 1.75% per annum, in each case based on available credit. An unused commitment fee payable on the undrawn portion of the revolving loans ranges from 0.25% to 0.375% 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, 2018, we had no cash borrowings outstanding under the Credit Agreement, and we had approximately $2 million of standby letters of credit outstanding. Based on our eligible receivables, approximately $998 million was available for borrowing under the Credit Agreement at September 30, 2018.

Letter of Credit Facility

We have a letter of credit facility (as amended, the "LC Facility") that provides for the issuance of standby and documentary 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 maturity date of the LC Facility is March 7, 2021. Obligations under the LC Facility are guaranteed and secured by a first-priority pledge of the capital stock and other ownership interests of certain of our wholly owned domestic hospital subsidiaries on an equal ranking basis with our senior secured first lien notes.

Drawings under any letter of credit issued under the LC Facility that we have not reimbursed within three business days after notice thereof will accrue interest at a base rate plus a margin equal to 0.50% per annum. An unused commitment fee is payable at an initial rate of 0.25% per annum with a step up to 0.375% per annum should our secured-debt-to-EBITDA ratio equal or exceed 3.00 to 1.00 at the end of any fiscal quarter. A fee on the aggregate outstanding amount of issued but undrawn letters of credit will accrue at a rate of 1.50% 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, 2018, we had approximately $96 million of standby letters of credit outstanding under the LC Facility.

NOTE 7. GUARANTEES

At September 30, 2018, 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 $186 million. We had a total liability of $138 million recorded for these guarantees included in other current liabilities at September 30, 2018.

At September 30, 2018, we also had issued guarantees of the indebtedness and other obligations of our investees to third parties, the maximum potential amount of future payments under which was approximately $27 million. Of the total,

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$18 million relates to the obligations of consolidated subsidiaries, which obligations are recorded in the accompanying Condensed Consolidated Balance Sheet at September 30, 2018.

NOTE 8. EMPLOYEE BENEFIT PLANS

In recent years, we have granted both options and restricted stock units to certain of our employees. 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. Typically, options and time-based restricted stock units vest one-third on each of the first three anniversary dates of the grant; however, certain special retention awards may have different vesting terms. In addition, we grant performance-based options and performance-based restricted stock units that vest subject to the achievement of specified performance goals within a specified time frame. At September 30, 2018, assuming outstanding performance-based restricted stock units and options for which performance has not yet been determined will achieve target performance, approximately 5.2 million shares of common stock were available under our 2008 Stock Incentive Plan for future stock option grants and other equity incentive awards, including restricted stock units (approximately 4.1 million shares remain available if we assume maximum performance for outstanding performance-based restricted stock units and options for which performance has not yet been determined).

Our Condensed Consolidated Statements of Operations for the nine months ended September 30, 2018 and 2017 include $34 million and $44 million, respectively, of pre-tax compensation costs related to our stock-based compensation arrangements.

Stock Options

The following table summarizes stock option activity during the nine months ended September 30, 2018:

	Options	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value	Weighted Average Remaining Life
			(In Millions)	
Outstanding at December 31, 2017	2,564,822	$20.35		
Granted	635,196	21.33		
Exercised	(612,074)	18.36		
Forfeited/Expired	(299,581)	36.21		
Outstanding at September 30, 2018	**2,288,363**	**$19.08**	**$ 22**	**7.0 years**
Vested and expected to vest at September 30, 2018	**2,288,363**	**$19.08**	**$ 22**	**7.0 years**
Exercisable at September 30, 2018	**774,812**	**$17.34**	**$ 9**	**3.4 years**

There were 612,074 and 16,525 stock options exercised during the nine months ended September 30, 2018 and 2017, respectively, with aggregate intrinsic values of approximately $4 million and less than $1 million, respectively.

At September 30, 2018, there were $7 million of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 2.1 years.

In the three months ended June 30, 2018, we granted an aggregate of 31,184 performance-based stock options under our 2008 Stock Incentive Plan to new senior officers. The options will all vest on the third anniversary of the grant date, subject to achieving a closing stock price of at least $44.29 (a 25% premium above the May 31, 2018 grant-date closing stock price of $35.43) for at least 20 consecutive trading days within three years of the grant date, and will

expire on the tenth anniversary of the grant date. In the three months ended March 31, 2018, we granted an aggregate of 604,012 performance-based stock options under our 2008 Stock Incentive Plan to certain of our senior officers. The stock options will all vest on the third anniversary of the grant date because, in the three months ended June 30, 2018, the requirement that our stock close at a price of at least $25.75 (a 25% premium above the February 28, 2018 grant-date closing stock price of $20.60) for at least 20 consecutive trading days within three years of the grant date was met; these options will expire on the tenth anniversary of the grant date.

In the three months ended September 30, 2017, we granted 408,526 performance-based stock options under our 2008 Stock Incentive Plan to our executive chairman. The stock options all vested on the first anniversary of the grant date because, in the three months ended June 30, 2018, the requirement that our stock close at a price of at least $20.53 (a 25% premium above the September 29, 2017 grant-date closing stock price of $16.43) for at least 30 consecutive trading days within four years of the grant date was met; these options will expire on the fifth anniversary of the grant date. In the three months ended March 31, 2017, we granted an aggregate of 987,781 performance-based stock options under our 2008 Stock Incentive Plan to certain of our senior officers. The stock options will all vest on the third anniversary of the grant date because, in the three

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months ended June 30, 2018, the requirement that our stock close at a price of at least $23.74 (a 25% premium above the March 1, 2017 grant-date closing stock price of $18.99) for at least 20 consecutive trading days within three years of the grant date was met; these options will expire on the tenth anniversary of the grant date.

The weighted average estimated fair value of stock options we granted in the nine months ended September 30, 2018 and 2017 was $9.16 and $7.68 per share, respectively. These fair values were calculated based on each grant date, using a Monte Carlo simulation with the following assumptions:

	Nine Months Ended September 30, 2018	Three Months Ended September 30, 2017	Three Months Ended March 31,
Expected volatility	46%	46%	49%
Expected dividend yield	0%	0%	0%
Expected life	6.2 years	3.0 years	6.2 years
Expected forfeiture rate	0%	0%	0%
Risk-free interest rate	2.72%	1.92%	2.15%

The expected volatility used for the 2018 Monte Carlo simulation incorporates historical volatility based on an analysis of historical prices of our stock. The expected volatility reflects the historical volatility for a duration consistent with the contractual life of the options; it does not consider the implied volatility from open-market exchanged options due to the limited trading activity and the transient nature of factors impacting our stock price volatility. The expected volatility used for the Monte Carlo simulation for the options granted in the three months ended September 30, 2017 incorporated historical volatility based on an analysis of historical prices of our stock. The expected volatility used for the Monte Carlo simulation for the options granted in the three months ended March 31, 2017 incorporated historical and implied share-price volatility and was based on an analysis of historical prices of our stock and open-market exchanged options. In each case, the expected volatility reflected the historical volatility for a duration consistent with the contractual life of the options. The historical share-price volatility for 2018 excludes the movements in our stock price for the period from August 15, 2017 through November 30, 2017 due to the departure of certain board members and officers, as well as reports that we were exploring a potential sale of the company. The historical share-price volatility for 2017 excludes the movements in our stock price on two dates (April 8, 2011 and April 11, 2011) with unusual volatility due to an unsolicited acquisition proposal. The expected life of options granted is derived from Tenet's historical stock option exercise behavior, adjusted for the exercisable period (i.e., from the third anniversary through the tenth anniversary of the grant date). 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 time frames.

The following table summarizes information about our outstanding stock options at September 30, 2018:

	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	90,184	0.4 years	$ 4.56	90,184	$ 4.56
$4.57 to $19.759	1,292,315	7.0 years	18.18	413,960	16.46
$19.76 to $35.430	905,864	7.7 years	21.81	270,668	22.94
	2,288,363				