

Edgar Filing: TENET HEALTHCARE CORP - Form 10-Q

TENET HEALTHCARE CORP

Form 10-Q

November 05, 2018

false--12-31Q320182018-09-3010-Q0000070318102498300falseLarge Accelerated FilerTENET HEALTHCARE CORPfalseP7YP7YP3DP20DP20DP30D1P3YP4Y4739000000516900000089800000030000000.050.05262500000262500000000070318 2018-01-01 2018-09-30 0000070318 2018-10-31 0000070318 2018-09-30 0000070318 2017-12-31 0000070318 2017-07-01 2017-09-30 0000070318 2018-07-01 2018-09-30 0000070318 2017-01-01 2017-09-30 0000070318 2016-12-31 0000070318 2017-09-30 0000070318 thc:HealthPlanRelatedBusinessesMember 2018-09-30 0000070318 thc:CaptiveInsuranceSubsidiariesMember 2018-09-30 0000070318 thc:AccountingStandardsUpdate201802Member us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-01-01 0000070318 thc:AmbulatoryCareMember 2018-01-01 2018-09-30 0000070318 us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-01-01 0000070318 thc:HealthPlanRelatedBusinessesMember 2017-12-31 0000070318 us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-01-01 2018-09-30 0000070318 us-gaap:AccountsPayableMember 2018-09-30 0000070318 us-gaap:AccountingStandardsUpdate201601Member us-gaap:RetainedEarningsMember 2018-01-01 0000070318 2017-01-01 2017-12-31 0000070318 thc:UnitedSurgicalPartnersInternationalMember 2018-01-01 2018-09-30 0000070318 us-gaap:AccountsPayableMember 2017-01-01 2017-12-31 0000070318 thc:CoreServicesAndOtherSegmentMember 2018-01-01 2018-09-30 0000070318 us-gaap:AccountsPayableMember 2018-01-01 2018-09-30 0000070318 us-gaap:AccountsPayableMember 2017-12-31 0000070318 thc:CaptiveInsuranceSubsidiariesMember 2017-12-31 0000070318 us-gaap:ComputerSoftwareIntangibleAssetMember 2017-12-31 0000070318 us-gaap:TradeNamesMember 2017-12-31 0000070318 us-gaap:ContractBasedIntangibleAssetsMember 2017-12-31 0000070318 us-gaap:OtherIntangibleAssetsMember 2017-12-31 0000070318 us-gaap:ContractBasedIntangibleAssetsMember 2018-09-30 0000070318 us-gaap:OtherIntangibleAssetsMember 2018-09-30 0000070318 us-gaap:TradeNamesMember 2018-09-30 0000070318 us-gaap:ComputerSoftwareIntangibleAssetMember 2018-09-30 0000070318 us-gaap:AccountingStandardsUpdate201409Member us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-01-01 2018-09-30 0000070318 thc:AccountingStandardsUpdate201802Member us-gaap:RetainedEarningsMember 2018-01-01 0000070318 thc:CaliforniaProviderFeeProgramMember us-gaap:OtherAssetsMember 2018-09-30 0000070318 thc:CaliforniaProviderFeeProgramMember us-gaap:OtherNoncurrentLiabilitiesMember 2017-12-31 0000070318 thc:CaliforniaProviderFeeProgramMember us-gaap:OtherNoncurrentLiabilitiesMember 2018-09-30 0000070318 thc:CaliforniaProviderFeeProgramMember us-gaap:OtherCurrentLiabilitiesMember 2018-09-30 0000070318 thc:CaliforniaProviderFeeProgramMember us-gaap:OtherAssetsMember 2017-12-31 0000070318 thc:CaliforniaProviderFeeProgramMember us-gaap:OtherCurrentLiabilitiesMember 2017-12-31 0000070318 thc:CaliforniaProviderFeeProgramMember us-gaap:OtherCurrentAssetsMember 2017-12-31 0000070318 thc:CaliforniaProviderFeeProgramMember us-gaap:OtherCurrentAssetsMember 2018-09-30 0000070318 us-gaap:SelfPayMember 2018-01-01 2018-09-30 0000070318 us-gaap:SelfPayMember 2017-07-01 2017-09-30 0000070318 thc:CharityCarePatientsMember 2018-01-01 2018-09-30 0000070318 thc:CharityCarePatientsMember 2018-07-01 2018-09-30 0000070318 us-gaap:SelfPayMember 2018-07-01 2018-09-30 0000070318 thc:CharityCarePatientsMember 2017-07-01 2017-09-30 0000070318 thc:CharityCarePatientsMember 2017-01-01 2017-09-30 0000070318 thc:DisproportionateShareHospitalMember 2017-01-01 2017-09-30 0000070318 us-gaap:SelfPayMember 2017-01-01 2017-09-30 0000070318 thc:DisproportionateShareHospitalMember 2018-07-01 2018-09-30 0000070318 thc:DisproportionateShareHospitalMember 2018-01-01 2018-09-30 0000070318 thc:DisproportionateShareHospitalMember 2017-07-01 2017-09-30 0000070318 us-gaap:SegmentDiscontinuedOperationsMember 2018-09-30 0000070318 us-gaap:SegmentContinuingOperationsMember 2017-12-31 0000070318 us-gaap:SegmentContinuingOperationsMember 2018-09-30 0000070318 us-gaap:SegmentDiscontinuedOperationsMember 2017-12-31 0000070318 thc:ConiferSegmentMember 2017-01-01

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0000070318 us-gaap:OperatingSegmentsMember thc:AmbulatoryCareSegmentMember 2017-01-01 2017-09-30
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0000070318 us-gaap:OperatingSegmentsMember thc:AmbulatoryCareSegmentMember 2018-01-01 2018-09-30
0000070318 us-gaap:OperatingSegmentsMember thc:ConiferSegmentMember 2017-07-01 2017-09-30 0000070318
us-gaap:OperatingSegmentsMember thc:CoreServicesAndOtherSegmentMember 2017-07-01 2017-09-30
0000070318 us-gaap:OperatingSegmentsMember thc:CoreServicesAndOtherSegmentMember 2018-01-01
2018-09-30 0000070318 us-gaap:IntersegmentEliminationMember 2017-01-01 2017-09-30 0000070318
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2018-09-30 0000070318 us-gaap:OperatingSegmentsMember thc:ConiferSegmentMember 2018-01-01 2018-09-30
0000070318 us-gaap:OperatingSegmentsMember thc:AmbulatoryCareSegmentMember 2017-07-01 2017-09-30
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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
thc:OtherCustomersMember thc:ConiferSegmentMember 2017-01-01 2017-09-30 0000070318
us-gaap:OperatingSegmentsMember thc:OtherCustomersMember thc:ConiferSegmentMember 2017-07-01
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 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 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 Accelerated filer Non-accelerated filer

Smaller reporting company

Emerging growth company

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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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Table of Contents**PART I. FINANCIAL INFORMATION**
ITEM 1. FINANCIAL STATEMENTS**TENET HEALTHCARE CORPORATION AND SUBSIDIARIES**
CONDENSED CONSOLIDATED BALANCE SHEETS**Dollars in Millions**
(Unaudited)

	September 30,	December
	2018	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)

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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, 2018		Nine Months Ended September 30, 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)

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	\$(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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Table of Contents**TENET HEALTHCARE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME**

Dollars in Millions

(Unaudited)

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 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.

Table of Contents**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

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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:

	Three Month Years Ending Ending December 31,					Later Years
	Total	2018	2019	2020	2021	2022
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, 2018		Nine Months Ended September 30, 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

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

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		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-
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	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, 2018		Nine Months Ended September 30, 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

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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:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	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	7.0 years	\$ 19.08	774,812	\$ 17.34

Restricted Stock Units

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

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	Restricted Stock Units	Weighted Average Grant Date Fair Value Per Unit
Unvested at December 31, 2017	2,253,988	\$ 35.20
Granted	734,091	24.70
Vested	(872,062)	34.03
Forfeited	(128,074)	36.24
Unvested at September 30, 2018	1,987,943	\$ 31.77

In the nine months ended September 30, 2018, we granted 734,091 restricted stock units, of which 288,325 will vest and be settled ratably over a three-year period from the grant date, 339,806 will vest and be settled ratably over a two-year

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period from the grant date, and 29,870 will vest and be settled on the third anniversary of the grant date. In addition, in May 2018, we made an annual grant of 54,198 restricted stock units to our non-employee directors for the 2018-2019 board service year, which units vested immediately and will settle in shares of our common stock on the third anniversary of the date of the grant. Because the board of directors appointed two new members in May 2018, we made initial grants totaling 3,670 restricted stock units to these directors, as well as prorated annual grants totaling 12,154 restricted stock units. Both the initial grants and the annual grants vested immediately, however the initial grants will not settle until the directors' separation from the Board, while the annual grants settle on the third anniversary of the grant date. In addition, we granted 6,068 performance-based restricted stock units to certain of our senior officers; the vesting of these restricted stock units is contingent on our achievement of specified performance goals for the years 2018 to 2020. Provided the goals are achieved, the performance-based restricted stock units will vest and settle on the third anniversary of the grant date. The actual number of performance-based restricted stock units that could vest will range from 0% to 200% of the 6,068 units granted, depending on our level of achievement with respect to the performance goals.

At September 30, 2018, there were \$22 million of total unrecognized compensation costs related to restricted stock units. These costs are expected to be recognized over a weighted average period of 1.6 years.

Employee Retirement Plans

In the nine months ended September 30, 2018 and 2017, we recognized (i) service cost related to one of our frozen nonqualified defined benefit pension plans of approximately \$2 million and \$1 million, respectively, in salaries, wages and benefits expense, and (ii) other components of net periodic pension cost and net periodic postretirement benefit cost related to our frozen qualified and nonqualified defined benefit plans of approximately \$12 million and \$20 million, respectively, in other non-operating expense, net, in the accompanying Condensed Consolidated Statements of Operations.

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The following tables show the changes in consolidated equity during the nine months ended September 30, 2018 and 2017 (dollars in millions, share amounts in thousands):

	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, 2017	100,972	\$ 7	\$ 4,859	\$ (204)	\$ (2,390)	\$ (2,419)	\$ 686	\$ 539
Net income	—	—	—	—	99	—	31	130
Distributions paid to noncontrolling interests	—	—	—	—	—	—	(34)	(34)
Other comprehensive income	—	—	—	8	—	—	—	8
Accretion of redeemable noncontrolling interests	—	—	(37)	—	—	—	—	(37)
Purchases (sales) of businesses and noncontrolling interests	—	—	(4)	—	—	—	(2)	(6)
Cumulative effect of accounting change	—	—	—	(43)	43	—	—	—
Stock-based compensation expense, tax benefit and issuance of common stock	1,017	—	15	—	—	1	—	16
Balances at March 31, 2018	101,989	\$ 7	\$ 4,833	\$ (239)	\$ (2,248)	\$ (2,418)	\$ 681	\$ 616
Net income	—	—	—	—	26	—	42	68
Distributions paid to noncontrolling interests	—	—	—	—	—	—	(38)	(38)
Other comprehensive loss	—	—	—	(4)	—	—	—	(4)
Accretion of redeemable noncontrolling interests	—	—	(123)	—	—	—	—	(123)
Purchases (sales) of businesses and noncontrolling interests	—	—	(2)	—	—	—	45	43
Stock-based compensation expense, tax benefit and issuance of common stock	312	—	14	—	—	—	—	14
Balances at June 30, 2018	102,301	\$ 7	\$ 4,722	\$ (243)	\$ (2,222)	\$ (2,418)	\$ 730	\$ 576
Net income	—	—	—	—	(9)	—	40	31
Distributions paid to noncontrolling interests	—	—	—	—	—	—	(40)	(40)
Other comprehensive income	—	—	—	41	—	—	—	41
Accretion of redeemable noncontrolling interests	—	—	(6)	—	—	—	—	(6)
Purchases (sales) of businesses and noncontrolling interests	—	—	3	—	—	—	36	39
Stock-based compensation expense, tax benefit and issuance of common stock	146	—	14	—	—	3	—	17
Balances at September 30, 2018	102,447	\$ 7	\$ 4,733	\$ (202)	\$ (2,231)	\$ (2,415)	\$ 766	\$ 658

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	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, 2016	99,686	\$ 7	\$ 4,827	\$ (258)	\$ (1,742)	\$ (2,417)	\$ 665	\$ 1,082
Net income (loss)	—	—	—	—	(53)	—	36	(17)
Distributions paid to noncontrolling interests	—	—	—	—	—	—	(36)	(36)
Other comprehensive income	—	—	—	3	—	—	—	3
Purchases (sales) of businesses and noncontrolling interests	—	—	4	—	—	—	(1)	3
Cumulative effect of accounting change	—	—	—	—	56	—	—	56
Stock-based compensation expense and issuance of common stock	735	—	3	—	—	—	—	3
Balances at March 31, 2017	100,421	\$ 7	\$ 4,834	\$ (255)	\$ (1,739)	\$ (2,417)	\$ 664	\$ 1,094
Net income (loss)	—	—	—	—	(55)	—	35	(20)
Distributions paid to noncontrolling interests	—	—	—	—	—	—	(29)	(29)
Other comprehensive income	—	—	—	13	—	—	—	13
Accretion of redeemable noncontrolling interests	—	—	(29)	—	—	—	—	(29)
Purchases (sales) of businesses and noncontrolling interests	—	—	(8)	—	—	—	12	4
Stock-based compensation expense and issuance of common stock	289	—	22	—	—	—	—	22
Balances at June 30, 2017	100,710	\$ 7	\$ 4,819	\$ (242)	\$ (1,794)	\$ (2,417)	\$ 682	\$ 1,055
Net income (loss)	—	—	—	—	(367)	—	28	(339)
Distributions paid to noncontrolling interests	—	—	—	—	—	—	(28)	(28)
Other comprehensive income	—	—	—	4	—	—	—	4
Accretion of redeemable noncontrolling interests	—	—	(3)	—	—	—	—	(3)
Purchases (sales) of businesses and noncontrolling interests	—	—	—	—	—	—	(11)	(11)
Stock-based compensation expense and issuance of common stock	121	—	19	—	—	(2)	—	17
Balances at September 30, 2017	100,831	\$ 7	\$ 4,835	\$ (238)	\$ (2,161)	\$ (2,419)	\$ 671	\$ 695

Our noncontrolling interests balances at September 30, 2018 and December 31, 2017 were comprised of \$67 million and \$64 million, respectively, from our Hospital Operations and other segment, and \$699 million and \$622 million, respectively, from our Ambulatory Care segment. Our net income available to noncontrolling interests for the nine months ended September 30, 2018 and 2017 in the table above were comprised of \$6 million and \$9 million, respectively, from our Hospital Operations and other segment, and \$107 million and \$90 million, respectively, from our Ambulatory Care segment.

NOTE 10. NET OPERATING REVENUES

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* 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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The table below shows our sources of net operating revenues less provision for doubtful accounts and implicit price concessions from continuing operations:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Hospital Operations and other:				
Net patient service revenues from hospitals and related outpatient facilities				
Medicare	\$681	\$773	\$2,164	\$2,455
Medicaid	336	252	971	806
Managed care	2,228	2,327	6,869	7,211
Self-pay	33	9	78	40
Indemnity and other	156	161	438	457
Total	3,434	3,522	10,520	10,969
Physician practices revenues	280	270	825	810
Health plans	8	10	14	100
Revenue from other sources	40	64	83	187
Hospital Operations and other total prior to inter-segment eliminations	3,762	3,866	11,442	12,066
Ambulatory Care	502	468	1,531	1,395
Conifer	371	401	1,161	1,203
Inter-segment eliminations	(146)	(149)	(440)	(463)
Net operating revenues	\$4,489	\$4,586	\$13,694	\$14,201

Adjustments for prior-year cost reports and related valuation allowances, principally related to Medicare and Medicaid, increased revenues in the nine months ended September 30, 2018 and 2017 by \$11 million and \$36 million, respectively. Estimated cost report settlements and valuation allowances are included in accounts receivable in the accompanying Condensed Consolidated Balance Sheets (see Note 2). We believe that we have made adequate provision for any adjustments that may result from final determination of amounts earned under all the above arrangements with Medicare and Medicaid.

The table below shows the composition of net operating revenues less provision for doubtful accounts and implicit price concessions for our Ambulatory Care segment:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net patient service revenues	\$471	\$434	\$1,440	\$1,305
Management fees	22	23	68	67
Revenue from other sources	9	11	23	23
Net operating revenues	\$502	\$468	\$1,531	\$1,395

The table below shows the composition of net operating revenues for our Conifer segment:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenue cycle services – Tenet	\$141	\$142	\$424	\$434
Revenue cycle services – other customers	203	229	655	674
Other services – Tenet	5	7	16	29

Other services – other customers	22	23	66	66
Net operating revenues	\$371	\$401	\$1,161	\$1,203

Other services represent approximately 7% of Conifer’s revenue and include services such as value-based care, consulting and project services.

Performance Obligations

The following table includes Conifer’s revenue that is expected to be recognized in the future related to performance obligations that are unsatisfied, or partially unsatisfied, at the end of the reporting period. The amounts in the table primaril

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y consist of revenue cycle management fixed fees, which are typically recognized ratably as the performance obligation is satisfied. The estimated revenue does not include volume or contingency based contracts, performance incentives, penalties or other variable consideration that is considered constrained. Conifer's contract with Catholic Health Initiatives ("CHI"), a minority interest owner of Conifer Health Solutions, LLC, represents the majority of the fixed fee revenue related to remaining performance obligations. Conifer's contract term with CHI ends in 2032.

	Total	Three Months Years Ending					Later Years
		Ending December 31, 2018	2019	2020	2021	2022	
Performance obligations	\$8,032	\$161	\$653	\$653	\$604	\$578	\$5,383

NOTE 11. 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. For the policy period April 1, 2018 through March 31, 2019, we have coverage totaling \$850 million per occurrence, after deductibles and exclusions, with annual aggregate sub-limits of \$100 million for floods, \$200 million for earthquakes and a per-occurrence sub-limit of \$200 million for named windstorms with no annual aggregate. With respect to fires and other perils, excluding floods, earthquakes and named windstorms, the total \$850 million limit of coverage per occurrence applies. Deductibles are 5% of insured values up to a maximum of \$25 million for California earthquakes, floods and wind-related claims, and 2% of insured values for New Madrid fault earthquakes, with a maximum per claim deductible of \$25 million. Floods and certain other covered losses, including fires and other perils, have a minimum deductible of \$1 million.

Professional and General Liability Reserves

At September 30, 2018 and December 31, 2017, the aggregate current and long-term professional and general liability reserves in our accompanying Condensed Consolidated Balance Sheets were approximately \$857 million and \$854 million, respectively. These reserves include the reserves recorded by our captive insurance subsidiaries and our self-insured retention reserves recorded based on modeled 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 3.01% at September 30, 2018 and 2.33% at December 31, 2017.

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 \$267 million and \$225 million for the nine months ended September 30, 2018 and 2017, respectively.

NOTE 12. CLAIMS AND LAWSUITS

We operate in a highly regulated and litigious industry. 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. We and our subsidiaries have received inquiries in recent years from government agencies, and we may receive similar inquiries in future periods. We are also subject to class action lawsuits, employment-related claims and other legal actions in the ordinary course of business. Some of these actions may involve large demands, as well as substantial defense costs. We cannot predict the outcome of current or future legal actions against us or the effect that judgments or settlements in such matters may have on us.

We are also subject to a non-prosecution agreement, as described in our Annual Report and our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2018 and June 30, 2018. If we fail to comply with this agreement, we could be subject to criminal prosecution, substantial penalties and exclusion from participation in federal healthcare programs, any of which could adversely impact our business, financial condition, results of operations or cash flows.

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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. Significant judgment is required in both the determination of the probability of a loss and the determination as to whether a loss is reasonably estimable. These determinations are updated at least quarterly and are adjusted to reflect the effects of negotiations, settlements, rulings, advice of legal counsel and technical experts, and other information and events pertaining to a particular matter. 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.

Shareholder Derivative Litigation

In January 2017, the Dallas County District Court consolidated two previously disclosed shareholder derivative lawsuits filed by purported shareholders of the Company's common stock on behalf of the Company against current and former officers and directors into a single matter captioned *In re Tenet Healthcare Corporation Shareholder Derivative Litigation*. The plaintiffs filed a consolidated shareholder derivative petition in February 2017. (A separate shareholder derivative lawsuit, captioned *Horwitz, derivatively on behalf of Tenet Healthcare Corporation*, was filed in January 2017 in the U.S. District Court for the Northern District of Texas; however, in January 2018, the plaintiff in the *Horwitz* matter voluntarily dismissed his case.) The consolidated shareholder derivative petition alleges that false or misleading statements or omissions concerning the Company's financial performance and compliance policies, specifically with respect to the previously disclosed civil qui tam litigation and parallel criminal investigation of the Company and certain of its subsidiaries (together, the "Clinica de la Mama matters"), caused the price of the Company's common stock to be artificially inflated. In addition, the plaintiffs allege that the defendants violated GAAP by failing to disclose an estimate of the possible loss or a range of loss related to the Clinica de la Mama matters. The plaintiffs claim that they did not make demand on the Company's board of directors to bring the lawsuit because such a demand would have been futile. In May 2018, the judge in the consolidated shareholder derivative litigation entered an order lifting the previous year-long stay of the matter and, on July 6, 2018, the defendants filed pleadings seeking dismissal of the lawsuit. On October 8, 2018, the judge granted defendants' motion to dismiss, but also agreed to give plaintiffs 30 days to replead their complaint. If necessary, the defendants intend to continue to vigorously contest the plaintiffs' allegations in this matter.

Antitrust Class Action Lawsuit Filed by Registered Nurses in San Antonio

In *Maderazo, et al. v. VHS San Antonio Partners, L.P. d/b/a Baptist Health Systems, et al.*, filed in June 2006 in the U.S. District Court for the Western District of Texas, a purported class of registered nurses employed by three unaffiliated San Antonio-area hospital systems allege those hospital systems, including our Baptist Health System, and other unidentified San Antonio regional hospitals violated Section §1 of the federal Sherman Act by conspiring to depress nurses' compensation and exchanging compensation-related information among themselves in a manner that reduced competition and suppressed the wages paid to such nurses. The suit seeks unspecified damages (subject to trebling under federal law), interest, costs and attorneys' fees. The case was stayed from 2008 through mid-2015. At this time, we are awaiting the court's ruling on class certification and will continue to vigorously defend ourselves against the plaintiffs' allegations. It remains impossible at this time to predict the outcome of these proceedings with any certainty; however, we believe that the ultimate resolution of this matter will not have a material effect on our business, financial condition or results of operations.

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 or financial condition.

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.

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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, 2018 and 2017:

	Balances at Beginning of Period	Litigation and Investigation Costs	Cash Payments	Balances at End of Period
Nine Months Ended September 30, 2018				
Continuing operations	\$ 12	\$ 28	\$ (24)	\$ 16
Discontinued operations	—	—	—	—
	\$ 12	\$ 28	\$ (24)	\$ 16
Nine Months Ended September 30, 2017				
Continuing operations	\$ 12	\$ 12	\$ (14)	\$ 10
Discontinued operations	—	—	—	—
	\$ 12	\$ 12	\$ (14)	\$ 10

For the nine months ended September 30, 2018 and 2017, we recorded costs of \$28 million and \$12 million, respectively, in continuing operations in connection with significant legal proceedings and governmental investigations.

NOTE 13. REDEEMABLE NONCONTROLLING INTERESTS IN EQUITY OF CONSOLIDATED SUBSIDIARIES

As previously disclosed, as part of the acquisition of United Surgical Partners International in 2015, we entered into a put/call agreement (the “Put/Call Agreement”) with respect to the equity interests in USPI held by our joint venture partners. In January 2016, Welsh, Carson, Anderson & Stowe (“WCAS”), on behalf of our joint venture partners, delivered a put notice for the minimum number of shares they were required to put to us in 2016 according to the Put/Call Agreement. In April 2016, we paid approximately \$127 million to purchase those shares, which increased our ownership interest in USPI to approximately 56.3%. On May 1, 2017, we amended and restated the Put/Call Agreement to provide for, among other things, the acceleration of our acquisition of certain shares of USPI. On July 3, 2017, we paid approximately \$716 million for the purchase of 23.7% of USPI, which increased our ownership interest to 80.0%, as well as the final adjustment to the 2016 purchase price. In April 2018, we reached an agreement with WCAS on behalf of our joint venture partners to provide for the acceleration of our acquisition of all the remaining shares they owned in USPI and the settlement of adjustments to the price we paid for the shares we purchased from our joint venture partners in 2017. Under the terms of the agreement, we paid WCAS approximately \$630 million to buy our joint venture partners’ 15% ownership interest in USPI and to settle the adjustment to the price we paid in 2017 based on actual 2017 financial results. The agreement also satisfied any obligations under the previous amended and restated Put/Call Agreement with WCAS, including any future adjustments to the price for any future financial results of USPI. At September 30, 2018, we owned 95.0% of USPI, as the agreement with WCAS did not have any impact on the separate put/call agreement with Baylor University Medical Center for the 5% ownership interest it holds in USPI. Due to the accelerations of our acquisitions of shares of USPI, we recorded the differences between the carrying values and the purchase prices as accretion of redeemable noncontrolling interest and additional paid-in-capital in the nine months ended September 30, 2018 and 2017.

The following table shows the changes in redeemable noncontrolling interests in equity of consolidated subsidiaries during the nine months ended September 30, 2018 and 2017:

	Nine Months Ended September 30,	
	2018	2017
Balances at beginning of period	\$1,866	\$2,393

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Net income	135	155
Distributions paid to noncontrolling interests	(107)	(85)
Accretion of redeemable noncontrolling interests	166	32
Purchases and sales of businesses and noncontrolling interests, net	(616)	(679)
Balances at end of period	\$1,444	\$1,816

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The following tables show the composition by segment of our redeemable noncontrolling interests balances at September 30, 2018 and December 31, 2017, as well as our net income available to redeemable noncontrolling interests for the nine months ended September 30, 2018 and 2017:

	September 30, 2018	December 31, 2017
Hospital Operations and other	\$ 487	\$ 519
Ambulatory Care	695	1,137
Conifer	262	210
Redeemable noncontrolling interests	\$ 1,444	\$ 1,866

	Nine Months Ended September 30, 2018 2017	
Hospital Operations and other	\$(17)	\$14
Ambulatory Care	102	103
Conifer	50	