
**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 June 30, 2022

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
(State of Incorporation)

95-2557091
(IRS Employer Identification No.)

14201 Dallas Parkway
Dallas, TX 75254
(Address of principal executive offices, including zip code)

(469) 893-2200
(Registrant's telephone number, including area code)

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common stock, \$0.05 par value	THC	New York Stock Exchange
6.875% Senior Notes due 2031	THC31	New York Stock Exchange

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, 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

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

At July 22, 2022, there were 107,888,705 shares of the Registrant's common stock outstanding.

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

	June 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,351	\$ 2,364
Accounts receivable	2,840	2,770
Inventories of supplies, at cost	387	384
Income tax receivable	18	—
Other current assets	1,468	1,557
Total current assets	6,064	7,075
Investments and other assets	3,297	3,254
Deferred income taxes	60	65
Property and equipment, at cost, less accumulated depreciation and amortization (\$6,172 at June 30, 2022 and \$5,960 at December 31, 2021)	6,259	6,427
Goodwill	9,479	9,261
Other intangible assets, at cost, less accumulated amortization (\$1,389 at June 30, 2022 and \$1,374 at December 31, 2021)	1,462	1,497
Total assets	\$ 26,621	\$ 27,579
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 125	\$ 135
Accounts payable	1,083	1,300
Accrued compensation and benefits	811	896
Professional and general liability reserves	272	254
Accrued interest payable	221	203
Contract liabilities	474	959
Other current liabilities	1,382	1,362
Total current liabilities	4,368	5,109
Long-term debt, net of current portion	14,947	15,511
Professional and general liability reserves	789	791
Defined benefit plan obligations	407	421
Deferred income taxes	161	36
Contract liabilities – long-term	14	15
Other long-term liabilities	1,824	1,439
Total liabilities	22,510	23,322
Commitments and contingencies		
Redeemable noncontrolling interests in equity of consolidated subsidiaries	1,997	2,203
Equity:		
Shareholders' equity:		
Common stock, \$0.05 par value; authorized 262,500,000 shares; 156,160,385 shares issued at June 30, 2022 and 155,520,691 shares issued at December 31, 2021	8	8
Additional paid-in capital	4,756	4,877
Accumulated other comprehensive loss	(231)	(233)
Accumulated deficit	(1,036)	(1,214)
Common stock in treasury, at cost, 48,330,239 shares at June 30, 2022 and 48,331,649 shares at December 31, 2021	(2,410)	(2,410)
Total shareholders' equity	1,087	1,028
Noncontrolling interests	1,027	1,026
Total equity	2,114	2,054
Total liabilities and equity	\$ 26,621	\$ 27,579

See accompanying Notes to Condensed Consolidated Financial Statements.

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Dollars in Millions, Except Per-Share Amounts
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net operating revenues	\$ 4,638	\$ 4,954	\$ 9,383	\$ 9,735
Grant income	94	19	100	50
Equity in earnings of unconsolidated affiliates	54	54	100	96
Operating expenses:				
Salaries, wages and benefits	2,126	2,280	4,308	4,481
Supplies	811	859	1,596	1,663
Other operating expenses, net	1,006	1,054	1,948	2,126
Depreciation and amortization	216	221	419	445
Impairment and restructuring charges, and acquisition-related costs	57	20	73	40
Litigation and investigation costs	18	22	38	35
Net gains on sales, consolidation and deconsolidation of facilities	(1)	(15)	—	(15)
Operating income	553	586	1,201	1,106
Interest expense	(222)	(235)	(449)	(475)
Other non-operating income (expense), net	—	(1)	—	9
Loss from early extinguishment of debt	(66)	(31)	(109)	(54)
Income from continuing operations, before income taxes	265	319	643	586
Income tax expense	(86)	(61)	(185)	(106)
Income from continuing operations, before discontinued operations	179	258	458	480
Discontinued operations:				
Income (loss) from operations	—	(1)	1	(1)
Income (loss) from discontinued operations	—	(1)	1	(1)
Net income	179	257	459	479
Less: Net income available to noncontrolling interests	141	138	281	263
Net income available to Tenet Healthcare Corporation common shareholders	\$ 38	\$ 119	\$ 178	\$ 216
Amounts available (attributable) to Tenet Healthcare Corporation common shareholders				
Income from continuing operations, net of tax	\$ 38	\$ 120	\$ 177	\$ 217
Income (loss) from discontinued operations, net of tax	—	(1)	1	(1)
Net income available to Tenet Healthcare Corporation common shareholders	\$ 38	\$ 119	\$ 178	\$ 216
Earnings (loss) per share available (attributable) to Tenet Healthcare Corporation common shareholders:				
Basic				
Continuing operations	\$ 0.35	\$ 1.12	\$ 1.64	\$ 2.04
Discontinued operations	—	(0.01)	0.01	(0.01)
	\$ 0.35	\$ 1.11	\$ 1.65	\$ 2.03
Diluted				
Continuing operations	\$ 0.35	\$ 1.11	\$ 1.63	\$ 2.00
Discontinued operations	—	(0.01)	0.01	(0.01)
	\$ 0.35	\$ 1.10	\$ 1.64	\$ 1.99
Weighted average shares and dilutive securities outstanding (in thousands):				
Basic	107,790	106,822	107,636	106,566
Diluted	108,750	108,569	114,054	108,317

See accompanying Notes to Condensed Consolidated Financial Statements.

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME
Dollars in Millions
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income	\$ 179	\$ 257	\$ 459	\$ 479
Other comprehensive income:				
Amortization of net actuarial loss included in other non-operating income (expense), net	3	3	5	6
Unrealized losses on debt securities held as available-for-sale	(1)	—	(3)	—
Foreign currency translation adjustments	1	—	1	—
Other comprehensive income before income taxes	3	3	3	6
Income tax benefit (expense) related to items of other comprehensive income	(1)	2	(1)	(2)
Total other comprehensive income, net of tax	2	5	2	4
Comprehensive net income	181	262	461	483
Less: Comprehensive income available to noncontrolling interests	141	138	281	263
Comprehensive income available to Tenet Healthcare Corporation common shareholders	\$ 40	\$ 124	\$ 180	\$ 220

See accompanying Notes to Condensed Consolidated Financial Statements.

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Dollars in Millions
(Unaudited)

	Six Months Ended June 30,	
	2022	2021
Net income	\$ 459	\$ 479
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	419	445
Deferred income tax expense	132	48
Stock-based compensation expense	34	30
Impairment and restructuring charges, and acquisition-related costs	73	40
Litigation and investigation costs	38	35
Net gains on sales, consolidation and deconsolidation of facilities	—	(15)
Loss from early extinguishment of debt	109	54
Equity in earnings of unconsolidated affiliates, net of distributions received	18	10
Amortization of debt discount and debt issuance costs	15	17
Pre-tax loss (income) from discontinued operations	(1)	1
Other items, net	(59)	(22)
Changes in cash from operating assets and liabilities:		
Accounts receivable	(74)	(101)
Inventories and other current assets	173	56
Income taxes	(86)	25
Accounts payable, accrued expenses, contract liabilities and other current liabilities	(764)	(232)
Other long-term liabilities	(41)	(6)
Payments for restructuring charges, acquisition-related costs, and litigation costs and settlements	(98)	(85)
Net cash provided by operating activities	347	779
Cash flows from investing activities:		
Purchases of property and equipment	(307)	(243)
Purchases of businesses or joint venture interests, net of cash acquired	(66)	(64)
Proceeds from sales of facilities and other assets	209	124
Proceeds from sales of marketable securities, long-term investments and other assets	9	18
Purchases of marketable securities and equity investments	(41)	(19)
Other items, net	(4)	(11)
Net cash used in investing activities	(200)	(195)
Cash flows from financing activities:		
Repayments of borrowings	(2,744)	(2,012)
Proceeds from borrowings	2,013	1,409
Debt issuance costs	(24)	(15)
Distributions paid to noncontrolling interests	(310)	(212)
Proceeds from the sale of noncontrolling interests	9	12
Purchases of noncontrolling interests	(29)	(5)
Medicare advances and grants received by unconsolidated affiliates, net of recoupment	—	6
Other items, net	(75)	(19)
Net cash used in financing activities	(1,160)	(836)
Net decrease in cash and cash equivalents	(1,013)	(252)
Cash and cash equivalents at beginning of period	2,364	2,446
Cash and cash equivalents at end of period	\$ 1,351	\$ 2,194
Supplemental disclosures:		
Interest paid, net of capitalized interest	\$ (416)	\$ (486)
Income tax payments, net	\$ (140)	\$ (34)

See accompanying Notes to Condensed Consolidated Financial Statements.

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 headquartered in Dallas, Texas. Our care delivery network includes our subsidiary USPI Holding Company, Inc. (“USPI”), which operated or had indirect ownership interests in 410 ambulatory surgery centers and 24 surgical hospitals at June 30, 2022. We hold noncontrolling interests in 165 of these facilities, which are recorded using the equity method of accounting. We also operated 60 acute care and specialty hospitals, 110 other outpatient facilities, a network of employed physicians and a Global Business Center (“GBC”) in Manila, Philippines at June 30, 2022. In addition, we operate Conifer Health Solutions, LLC, in which we own an interest of approximately 76%, through our Conifer Holdings, Inc. subsidiary (“Conifer”).

Effective June 30, 2022, we purchased all of the shares previously held by Baylor University Medical Center (“Baylor”) in USPI for \$406 million, which increased our ownership interest in USPI’s voting shares from 95% to 100%. See Note 13 for additional information about this transaction.

Our business consists of our Hospital Operations and other (“Hospital Operations”) segment, our Ambulatory Care segment and our Conifer segment. Our Hospital Operations segment is comprised of our acute care and specialty hospitals, imaging centers, ancillary outpatient facilities, micro-hospitals and physician practices. Our Ambulatory Care segment is comprised of the operations of USPI, which holds indirect ownership interests in ambulatory surgery centers and surgical hospitals. Our Conifer segment provides revenue cycle management and value-based care services to hospitals, health systems, physician practices, employers and other clients.

This quarterly report supplements our Annual Report on Form 10-K for the year ended December 31, 2021 (“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, 2022, we adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2020-06, “Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity” (“ASU 2020-06”) using the modified retrospective method. Among other amendments, ASU 2020-06 changed the accounting for diluted earnings-per-share for convertible instruments and contracts that may be settled in cash or stock. ASU 2020-06 eliminated an entity’s ability to rebut the presumption of share settlement for convertible instruments and contracts that can be partially or fully settled in cash at the issuer’s election. Additionally, ASU 2020-06 requires that the if-converted method, which is more dilutive than the treasury stock method, be used for all convertible instruments. As a result of our adoption of ASU 2020-06, diluted weighted average shares outstanding increased by five million shares for the six months ended June 30, 2022. However, because there were also adjustments to net income under the if-converted method, the increase in diluted shares did not result in any change in the reported diluted earnings per share available to Tenet common shareholders for the six-month period.

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. The 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 the 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 six-month periods ended June 30, 2022 are not necessarily indicative of the results that may be expected for the full year. Reasons for this include, but are not limited to: the impact of the COVID-19 pandemic

on our operations, business, financial condition and cash flows; the impact of the demand for, and availability of, qualified medical personnel on compensation costs; the impact of cybersecurity incidents on our operations; 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; 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 cybersecurity incidents, 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 (losses) from early extinguishment of debt; and changes in occupancy levels and patient volumes. Factors that affect service mix, revenue mix, patient volumes and, thereby, the results of operations at our ambulatory surgery centers, hospitals and other healthcare facilities include, but are not limited to: changes in federal, state and local healthcare and business regulations, including mandated closures and other operating restrictions; changes in general economic conditions nationally and regionally, including inflation and the impacts of the COVID-19 pandemic and other factors on business conditions, the economy and financial markets; the number of uninsured and underinsured individuals in local communities treated at our facilities; disease hotspots and seasonal cycles of illness; climate and weather conditions; physician recruitment, satisfaction, retention and attrition; advances in technology and treatments that reduce length of stay or permit procedures to be performed in an outpatient rather than inpatient setting; local healthcare competitors; utilization pressure by managed care organizations, as well as managed care contract negotiations or terminations; performance data on quality measures and patient satisfaction, as well as standard charges for services; any unfavorable publicity about us, or our joint venture partners, that impacts our relationships with physicians and patients; and changing consumer behavior, including with respect to the timing of elective procedures. These considerations apply to year-to-year comparisons as well.

COVID-19 Pandemic

The COVID-19 pandemic has impacted all three segments of our business, as well as our patients, communities and employees, in varying degrees since March 2020. Throughout this time, federal, state and local authorities have undertaken several actions designed to assist healthcare providers in providing care to COVID-19 and other patients and to mitigate the adverse economic impact of the COVID-19 pandemic. Among other things, federal legislation (collectively, the “COVID Acts”) authorized aggregate grant payments of \$178 billion to be distributed through the Public Health and Social Services Emergency Fund (“PRF”) to healthcare providers who experienced lost revenues and increased expenses as a result of the pandemic. The COVID Acts also revised the Medicare accelerated payment program (“MAPP”) and permitted employers to defer payroll Social Security tax payments in 2020. Our participation in these programs and the related accounting policies are summarized below.

Grant Income—As detailed in the table below, we received cash payments from the PRF and state and local grant programs during the three and six months ended June 30, 2022 and 2021. Grant funds received by our Hospital Operations segment and those facilities in our Ambulatory Care segment that we consolidate are included in cash flows from operating activities in our condensed consolidated statements of cash flows. Grant funds received by unconsolidated affiliates for which we provide cash management services (“Cash-Managed Affiliates”) are included in cash flows from financing activities.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Grant funds received from COVID-19 relief programs:				
Included in cash flows from operating activities:				
Hospital Operations	\$ 97	\$ 5	\$ 101	\$ 27
Ambulatory Care	2	—	3	9
	<u>\$ 99</u>	<u>\$ 5</u>	<u>\$ 104</u>	<u>\$ 36</u>
Included in cash flows from financing activities:				
Cash-Managed Affiliates	\$ —	\$ (1)	\$ —	\$ 27

As a condition to receiving distributions, providers must agree to certain terms and conditions, including, among other things, that the funds are being used for lost revenues and unreimbursed COVID-related costs as defined by the U.S. Department of Health and Human Services (“HHS”), and that the providers will not seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider. All recipients of PRF payments are required to comply with the reporting

requirements described in the terms and conditions and as determined by the Secretary of HHS. PRF funds not utilized by the established deadlines, generally 12 to 18 months after receipt of the grant funds, will be recouped by HHS.

We recognize grant payments as income when there is reasonable assurance that we have complied with the conditions associated with the grant. The estimates we use to recognize grant income could change materially in the future based on our operating performance or fluctuations in the severity of COVID-19 outbreaks at individual locations, as well as the government's grant compliance guidance. The table below summarizes grant income recognized by our Hospital Operations and Ambulatory Care segments, which is presented in grant income, and grant income recognized through our unconsolidated affiliates, which is presented in equity in earnings of unconsolidated affiliates, in each case in our condensed consolidated statements of operations.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Grant income recognized from COVID-19 relief programs:				
Included in grant income:				
Hospital Operations	\$ 92	\$ 4	\$ 96	\$ 28
Ambulatory Care	2	15	4	22
	\$ 94	\$ 19	\$ 100	\$ 50
Included in equity in earnings of unconsolidated affiliates:				
Unconsolidated affiliates	\$ —	\$ 5	\$ —	\$ 11

At June 30, 2022 and December 31, 2021, we had remaining deferred grant payment balances of \$8 million and \$5 million, respectively, which amounts were recorded in other current liabilities in the accompanying Condensed Consolidated Balance Sheets for those periods.

Medicare Accelerated Payment Program (MAPP)—In certain circumstances, when a healthcare facility is experiencing financial difficulty due to delays in receiving payment for the Medicare services it provided, it may be eligible for an accelerated or advance payment pursuant to the MAPP. The COVID Acts revised the MAPP to disburse payments to healthcare providers more quickly. Recipients may retain the accelerated payments for one year from the date of receipt before recoupment commences, which is effectuated by a 25% offset of claims payments for 11 months, followed by a 50% offset for the succeeding six months. At the end of the 29-month period, interest on the unrecouped balance will be assessed at 4.00% per annum. The initial 11-month recoupment period began in April 2021. Our Hospital Operations and Ambulatory Care segments did not receive any additional advance payments from the MAPP during the six months ended June 30, 2022 or 2021.

The table below summarizes MAPP advances from prior periods recouped during the three and six months ended June 30, 2022 and 2021. Advances to our Hospital Operations segment and those facilities in our Ambulatory Care segment that we consolidate were recouped through a reduction of their respective Medicare claims payments and are presented in cash flows from operating activities in our condensed consolidated statements of cash flows. Advances to our Cash-Managed Affiliates were recouped through a reduction of those affiliates' Medicare claims payments and are presented in cash flows from financing activities.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
MAPP advances recouped:				
Included in cash flows from operating activities:				
Hospital Operations	\$ 279	\$ 141	\$ 473	\$ 141
Ambulatory Care	2	11	2	11
	\$ 281	\$ 152	\$ 475	\$ 152
Included in cash flows from financing activities:				
Cash-Managed Affiliates	\$ —	\$ 12	\$ —	\$ 12

In the accompanying Condensed Consolidated Balance Sheets, advances totaling \$405 million and \$880 million were included in contract liabilities at June 30, 2022 and December 31, 2021, respectively.

Deferral of Employment Tax Payments—The COVID Acts permitted employers to defer payment of the 6.2% employer Social Security tax beginning March 27, 2020 through December 31, 2020. Deferred tax amounts are required to be paid in

equal amounts over two years, with payments due in December 2021 and December 2022. We paid the first half of the Social Security taxes we deferred in 2020 in December 2021. At both June 30, 2022 and December 31, 2021, deferred Social Security tax payments totaling \$128 million were included in accrued compensation and benefits in the accompanying Condensed Consolidated Balance Sheets.

Leases

During the six months ended June 30, 2022, we sold several medical office buildings held in our Hospital Operations segment for net cash proceeds of \$147 million and concurrently entered into operating lease agreements to continue use of the facilities. We recognized a gain of \$69 million from the sale of these buildings, presented in other operating expenses, net in the accompanying Condensed Consolidated Statement of Operations, and we recognized right-of-use assets and lease-related obligations of \$109 million related to the leases, in each case in the six months ended June 30, 2022.

During the six months ended June 30, 2022 and 2021, we recorded right-of-use assets related to non-cancellable finance leases of \$29 million and \$40 million, respectively, and related to non-cancellable operating leases of \$227 million and \$96 million, respectively.

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 \$1.351 billion and \$2.364 billion at June 30, 2022 and December 31, 2021, respectively. At June 30, 2022 and December 31, 2021, our book overdrafts were \$145 million and \$226 million, respectively, which were classified as accounts payable. At June 30, 2022 and December 31, 2021, \$165 million and \$188 million, respectively, of total cash and cash equivalents in the accompanying Condensed Consolidated Balance Sheets were intended for the operations of our insurance-related subsidiaries.

Also at June 30, 2022 and December 31, 2021, we had \$72 million and \$95 million, respectively, of property and equipment purchases accrued for items received but not yet paid. Of these amounts, \$58 million and \$88 million, respectively, were included in accounts payable.

In June 2022, we acquired all of Baylor's 5% voting ownership interest in USPI. We paid \$11 million from cash on hand and recognized a liability of \$377 million, the present value of the liability, for the remainder of the purchase price. We recorded reductions in redeemable noncontrolling interest of \$365 million for the carrying value of Baylor's ownership interest and \$23 million to additional paid-in capital for the difference between the carrying value and present value of the purchase price for the shares. This has been reflected as noncash financing activity in the accompanying Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2022. See Note 13 for additional information about this transaction.

Other Intangible Assets

The following tables provide information regarding other intangible assets, which were included in the accompanying Condensed Consolidated Balance Sheets:

	Gross Carrying Amount	Accumulated Amortization	Net Book Value
At June 30, 2022:			
Other intangible assets with finite useful lives:			
Capitalized software costs	\$ 1,751	\$ (1,174)	\$ 577
Contracts	295	(138)	157
Other	94	(77)	17
Total other intangible assets with finite lives	2,140	(1,389)	751
Other intangible assets with indefinite useful lives:			
Trade names	102	—	102
Contracts	603	—	603
Other	6	—	6
Total other intangible assets with indefinite lives	711	—	711
Total other intangible assets	\$ 2,851	\$ (1,389)	\$ 1,462

	Gross Carrying Amount	Accumulated Amortization	Net Book Value
At December 31, 2021:			
Other intangible assets with finite useful lives:			
Capitalized software costs	\$ 1,770	\$ (1,165)	\$ 605
Contracts	295	(128)	167
Other	95	(81)	14
Total other intangible assets with finite lives	2,160	(1,374)	786
Other intangible assets with indefinite useful lives:			
Trade names	102	—	102
Contracts	602	—	602
Other	7	—	7
Total other intangible assets with indefinite lives	711	—	711
Total other intangible assets	\$ 2,871	\$ (1,374)	\$ 1,497

Estimated future amortization of intangibles with finite useful lives at June 30, 2022 was as follows:

	Total	Six Months Ending	Years Ending December 31,				Later Years
		2022	2023	2024	2025	2026	
Amortization of intangible assets	\$ 751	\$ 83	\$ 123	\$ 120	\$ 100	\$ 81	\$ 244

We recognized amortization expense of \$92 million and \$95 million in the accompanying Condensed Consolidated Statements of Operations for the six months ended June 30, 2022 and 2021, respectively.

Other Current Assets

The principal components of other current assets in the accompanying Condensed Consolidated Balance Sheets were as follows:

	June 30, 2022	December 31, 2021
Prepaid expenses	\$ 349	\$ 252
Contract assets	187	199
Receivables from government programs	446	627
Guarantees	99	104
Non-patient receivables	329	321
Other	58	54
Total other current assets	\$ 1,468	\$ 1,557

Investments in Unconsolidated Affiliates

We control 269 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 (165 of 434 at June 30, 2022), as well as additional companies in which our Hospital Operations segment holds ownership interests, under the equity method as investments in unconsolidated affiliates and report only our share of net income as equity in earnings of unconsolidated affiliates in the accompanying Condensed Consolidated Statements of Operations. No grant income was recognized during the three and six months ended June 30, 2022 by our unconsolidated affiliates. Equity in earnings of unconsolidated affiliates included \$5 million and \$11 million of grant income for the three and six months ended June 30, 2021, respectively.

Summarized financial information for these equity method investees is included in the following table. For investments acquired during the reported periods, amounts below include 100% of the investee's results beginning on the date of our acquisition of the investment.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net operating revenues	\$ 794	\$ 711	\$ 1,563	\$ 1,345
Net income	\$ 193	\$ 197	\$ 362	\$ 362
Net income available to the investees	\$ 109	\$ 115	\$ 207	\$ 217

NOTE 2. ACCOUNTS RECEIVABLE

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

	June 30, 2022	December 31, 2021
Patient accounts receivable	\$ 2,650	\$ 2,600
Estimated future recoveries	141	137
Net cost reports and settlements receivable and valuation allowances	49	33
	\$ 2,840	\$ 2,770

We participate in various provider fee programs, which help reduce the amount of uncompensated care from indigent patients and those paying with Medicaid. The following table summarizes the amount and classification of assets and liabilities in the accompanying Condensed Consolidated Balance Sheets related to California's provider fee program:

	June 30, 2022	December 31, 2021
Assets:		
Other current assets	\$ 289	\$ 370
Investments and other assets	\$ 237	\$ 213
Liabilities:		
Other current liabilities	\$ 121	\$ 123
Other long-term liabilities	\$ 74	\$ 60

The following table presents our estimated costs (based on selected operating expenses, which include salaries, wages and benefits, supplies and other operating expenses) of caring for our uninsured and charity patients:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Estimated costs for:				
Uninsured patients	\$ 136	\$ 158	\$ 258	\$ 326
Charity care patients	19	29	40	49
Total	\$ 155	\$ 187	\$ 298	\$ 375

NOTE 3. CONTRACT BALANCES

Hospital Operations Segment

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 segment, our contract assets include 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 segment's contract assets were included in other current assets in the accompanying Condensed Consolidated Balance Sheets at June 30, 2022 and December 31, 2021. Approximately 91% of our Hospital Operations segment's contract assets meet the conditions for unconditional right to payment and are reclassified to patient receivables within 90 days.

As discussed in Note 1, our Hospital Operations segment received advance payments from the MAPP following its expansion under the COVID Acts during the year ended December 31, 2020; however, no additional advances were received during the six months ended June 30, 2022 and 2021. The remaining advance payments were recorded as contract liabilities in the accompanying Condensed Consolidated Balance Sheets at June 30, 2022 and December 31, 2021.

The opening and closing balances of contract assets and contract liabilities for our Hospital Operations segment were as follows:

	Contract Assets	Contract Liabilities – Current Advances from Medicare	Contract Liabilities – Long-Term Advances from Medicare
December 31, 2021	\$ 181	\$ 876	\$ —
June 30, 2022	172	403	—
Decrease	\$ (9)	\$ (473)	\$ —
December 31, 2020	\$ 208	\$ 510	\$ 819
June 30, 2021	170	891	301
Increase (decrease)	\$ (38)	\$ 381	\$ (518)

During the six months ended June 30, 2022 and 2021, \$473 million and \$141 million, respectively, of Medicare advance payments included in the opening contract liabilities balance for our Hospital Operations segment were recouped through a reduction of our Medicare claims payments.

Ambulatory Care Segment

Our Ambulatory Care segment also received advance payments from the expanded MAPP during the year ended December 31, 2020; however, no additional advances were received during the six months ended June 30, 2022 and 2021.

The opening and closing balances of contract liabilities for our Ambulatory Care segment were as follows:

	Contract Liabilities – Current Advances from Medicare	Contract Liabilities – Long-Term Advances from Medicare
December 31, 2021	\$ 4	\$ —
June 30, 2022	2	—
Decrease	\$ (2)	\$ —
December 31, 2020	\$ 93	\$ 83
June 30, 2021	106	34
Increase (decrease)	\$ 13	\$ (49)

During the six months ended June 30, 2022 and 2021, \$2 million and \$11 million, respectively, of Medicare advance payments included in the opening contract liabilities balance for our Ambulatory Care segment were recouped through a reduction of Medicare claims payments. Additionally, \$12 million of Medicare advance payments received by our Cash-Managed Affiliates and included in the opening contract liabilities balance were recouped in the same manner during the six months ended June 30, 2021. No amounts were recouped from our Cash-Managed Affiliates during the six months ended June 30, 2022.

Conifer Segment

Conifer enters into contracts with clients to provide revenue cycle management and other services, such as value-based care, consulting and engagement solutions. The payment terms and conditions in Conifer's client contracts vary. In some cases, clients are invoiced in advance and (for other than fixed-price fee arrangements) a true-up to the 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 its clients, Conifer recognizes either unbilled revenue (performance precedes contractual right to invoice the client) or deferred revenue (client payment precedes Conifer service performance). In the following table, clients that prepay prior to obtaining control/benefit of services 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 client has obtained control/benefit of these services prior to the contractual invoice date. Contracts with payment in arrears are recognized as receivables in the month the services are performed.

The opening and closing balances of Conifer’s receivables, contract assets and contract liabilities were as follows:

	Receivables	Contract Assets – Unbilled Revenue	Contract Liabilities – Current Deferred Revenue	Contract Liabilities – Long-Term Deferred Revenue
December 31, 2021	\$ 28	\$ 18	\$ 79	\$ 15
June 30, 2022	24	15	69	14
Decrease	\$ (4)	\$ (3)	\$ (10)	\$ (1)
December 31, 2020	\$ 56	\$ 20	\$ 56	\$ 16
June 30, 2021	59	15	58	16
Increase (decrease)	\$ 3	\$ (5)	\$ 2	\$ —

The differences between the opening and closing balances of Conifer’s contract assets and contract liabilities are primarily related to prepayments for those clients who are billed in advance, changes in estimates related to metric-based 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 were reported as part of other current assets in the accompanying Condensed Consolidated Balance Sheets, and its current and long-term contract liabilities were reported as part of contract liabilities and contract liabilities – long-term, respectively, in the accompanying Condensed Consolidated Balance Sheets.

In both of the six months ended June 30, 2022 and 2021, Conifer recognized \$55 million of revenue that was included in the opening current deferred revenue liability. This revenue consists primarily of prepayments for those clients 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

During both of the three months ended June 30, 2022 and 2021, we recognized amortization expense related to deferred contract setup costs of \$1 million. During both of the six months ended June 30, 2022 and 2021, we recognized amortization expense related to deferred contract setup costs of \$2 million. At June 30, 2022 and December 31, 2021, the unamortized client contract costs were \$24 million and \$23 million, respectively, and were presented as part of investments and other assets in the accompanying Condensed Consolidated Balance Sheets.

NOTE 4. ASSETS AND LIABILITIES HELD FOR SALE

In April 2022, we completed the sale of one of our micro-hospitals located in Arizona and held by our Hospital Operations segment. We recognized a gain from this sale of \$1 million during the three months ended June 30, 2022, which was included in net gains on sales, consolidation and deconsolidation of facilities in the accompanying Condensed Consolidated Statement of Operations.

In the three months ended June 30, 2021, we completed the sale of the majority of our urgent care centers operated under the MedPost and CareSpot brands, and we also completed the separate sale of a building we owned in the Philadelphia area. We recorded a gain related to the sale of the urgent care centers of \$14 million and a gain of \$2 million related to the sale of the building in Philadelphia in the three months ended June 30, 2021.

The table below provides information on significant components of our business that have been recently disposed of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Significant disposals:				
Income from continuing operations, before income taxes:				
Miami-area hospitals and certain related operations	\$ 4	\$ 16	\$ 8	\$ 29

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

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 each facility’s most recent projections. If these projections are not met, or negative trends occur that impact our future outlook, future impairments of long-lived assets and goodwill may occur, and we may incur additional restructuring charges, which could be material.

At June 30, 2022, our continuing operations consisted of three reportable segments – Hospital Operations, 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 statement of operations as they are incurred. Our restructuring plans focus on various aspects of operations, including aligning our operations in the most strategic and cost-effective structure, such as the establishment of offshore support operations at our GBC. Certain restructuring and acquisition-related costs are based on estimates. Changes in estimates are recognized as they occur.

During the six months ended June 30, 2022, we recorded impairment and restructuring charges and acquisition-related costs of \$73 million, primarily consisting of \$61 million of restructuring charges, \$6 million of impairment charges and \$6 million of acquisition-related costs. Restructuring charges consisted of \$21 million of employee severance costs, \$5 million related to the transition of various administrative functions to our GBC, \$22 million of contract and lease termination fees, and \$13 million of other restructuring costs. Impairment charges for the six months ended June 30, 2022 were comprised of \$2 million from each of our Hospital Operations, Ambulatory Care and Conifer segments. Acquisition-related costs consisted of \$6 million of transaction costs.

During the six months ended June 30, 2021, we recorded impairment and restructuring charges and acquisition-related costs of \$40 million, consisting of \$34 million of restructuring charges, \$1 million of impairment charges and \$5 million of acquisition-related costs. Restructuring charges consisted of \$10 million of employee severance costs, \$12 million related to the transition of various administrative functions to our GBC and \$12 million of other restructuring costs. Impairment charges for the six months ended June 30, 2021 were comprised of \$1 million from our Ambulatory Care segment. Acquisition-related costs consisted of \$5 million of transaction costs.

NOTE 6. LONG-TERM DEBT

The table below presents our long-term debt included in the accompanying Condensed Consolidated Balance Sheets:

	June 30, 2022	December 31, 2021
Senior unsecured notes:		
6.750% due 2023	\$ —	\$ 1,872
6.125% due 2028	2,500	2,500
6.875% due 2031	362	362
Senior secured first lien notes:		
4.625% due 2024	770	770
4.625% due 2024	600	600
7.500% due 2025	—	700
4.875% due 2026	2,100	2,100
5.125% due 2027	1,500	1,500
4.625% due 2028	600	600
4.250% due 2029	1,400	1,400
4.375% due 2030	1,450	1,450
6.125% due 2030	2,000	—
Senior secured second lien notes:		
6.250% due 2027	1,500	1,500
Finance leases, mortgages and other notes	433	443
Unamortized issue costs and note discounts	(143)	(151)
Total long-term debt	15,072	15,646
Less current portion	125	135
Long-term debt, net of current portion	\$ 14,947	\$ 15,511

Senior Unsecured Notes and Senior Secured Notes

On June 15, 2022, we issued \$2.000 billion aggregate principal amount of 6.125% senior secured first lien notes, which will mature on June 15, 2030 (the “2030 Senior Secured First Lien Notes”). We will pay interest on the 2030 Senior Secured First Lien Notes semi-annually in arrears on June 15 and December 15 of each year, commencing on December 15, 2022. As further discussed below, we used a portion of the issuance proceeds from the 2030 Senior Secured First Lien Notes, after payment of fees and expenses, to finance the redemption of our 6.750% senior unsecured notes due 2023 (the “2023 Senior Unsecured Notes”).

Through a series of open-market transactions during the six months ended June 30, 2022, we repurchased \$124 million aggregate principal amount outstanding of our 2023 Senior Unsecured Notes using cash on hand. Following the issuance of our 2030 Senior Secured First Lien Notes, we used a portion of the proceeds to redeem the then-remaining \$1.748 billion aggregate principal outstanding of the 2023 Senior Unsecured Notes in advance of their maturity date. In total, we paid \$1.933 billion during the six months ended June 30, 2022 to retire all \$1.872 billion aggregate principal amount outstanding of our 2023 Senior Unsecured Notes, and we recorded aggregate losses from early extinguishment of debt of \$71 million, primarily related to the difference between the purchase prices and the par value of the notes, as well as the write-off of associated unamortized issuance costs.

On February 23, 2022, we redeemed all \$700 million aggregate principal amount outstanding of our 7.500% senior secured first lien notes due 2025 in advance of their maturity date. We paid \$730 million from cash on hand to redeem the notes. In connection with the redemption, we recorded a loss from early extinguishment of debt of \$38 million in the three months ended March 31, 2022, primarily related to the difference between the purchase price and the par value of the notes, as well as the write-off of associated unamortized issuance costs.

Credit Agreement

We have a senior secured revolving credit facility that provides for revolving loans in an aggregate principal amount of up to \$1.500 billion with a \$200 million subfacility for standby letters of credit. We amended our credit agreement (as amended to date, the “Credit Agreement”) in April 2020 to, among other things, (i) increase the aggregate revolving credit commitments from the previous limit of \$1.500 billion to \$1.900 billion (the “Increased Commitments”), subject to borrowing availability, and (ii) increase the advance rate and raise limits on certain eligible accounts receivable in the calculation of the borrowing base, in each case, for an incremental period of 364 days. In April 2021, we amended the Credit Agreement to, among other things, extend the availability of the Increased Commitments through April 22, 2022 and reduce the interest rate margins. In March 2022, we further amended our Credit Agreement to, among other things, (i) decrease the aggregate revolving credit commitments from the previous Increased Commitments to aggregate revolving credit commitments not to exceed \$1.500 billion, subject to borrowing availability, (ii) extend the scheduled maturity date to March 16, 2027, and (iii) replace the London Interbank Offered Rate (LIBOR) with the Term Secured Overnight Financing Rate (“SOFR”) and Daily Simple SOFR (each, as defined in the Credit Agreement) as the reference interest rate. At June 30, 2022, we had no cash borrowings outstanding under the Credit Agreement, and we had less than \$1 million of standby letters of credit outstanding. Based on our eligible receivables, \$1.500 billion was available for borrowing under the revolving credit facility at June 30, 2022.

Obligations under the Credit Agreement continue to be guaranteed by substantially all of our domestic wholly owned hospital subsidiaries and secured by a first-priority lien on the eligible inventory and accounts receivable owned by us and the subsidiary guarantors, including receivables for Medicaid supplemental payments.

Outstanding revolving loans accrue interest depending on the type of loan at either (a) a base rate plus an applicable margin ranging from 0.25% to 0.75% per annum or (b) Term SOFR, Daily Simple SOFR or the Euro Interbank Offered Rate (EURIBOR) (each, as defined in the Credit Agreement) plus an applicable margin ranging from 1.25% to 1.75% per annum and (in the case of Term SOFR and Daily Simple SOFR only) a credit spread adjustment of 0.10%, 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 inventory and accounts receivable, including self-pay accounts.

Letter of Credit Facility

We have a letter of credit facility (as amended to date, the “LC Facility”) that provides for the issuance, from time to time, of standby and documentary letters of credit in an aggregate principal amount of up to \$200 million. The scheduled maturity date of the LC Facility is September 12, 2024. 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 accrue interest at a base rate plus a margin of 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 accrues 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. The LC Facility is subject to an effective maximum secured debt covenant of 4.25 to 1.00. At June 30, 2022, we had \$127 million of standby letters of credit outstanding under the LC Facility.

NOTE 7. GUARANTEES

At June 30, 2022, 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 \$111 million. We had a total liability of \$99 million recorded for these guarantees included in other current liabilities in the accompanying Condensed Consolidated Balance Sheet at June 30, 2022.

At June 30, 2022, 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 \$113 million. Of the total, \$22 million relates to the obligations of consolidated subsidiaries, which obligations were recorded in the accompanying Condensed Consolidated Balance Sheet at June 30, 2022.

NOTE 8. EMPLOYEE BENEFIT PLANS
Share-Based Compensation Plans

The accompanying Condensed Consolidated Statements of Operations for the six months ended June 30, 2022 and 2021 include \$34 million and \$30 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 six months ended June 30, 2022:

	Number of Options	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value (In Millions)	Weighted Average Remaining Life
Outstanding at December 31, 2021	520,998	\$ 23.90		
Exercised	(60,051)	\$ 28.26		
Outstanding at June 30, 2022	460,947	\$ 23.33	\$ 13	5.6 years

There were 60,051 and 293,581 stock options exercised during the six months ended June 30, 2022 and 2021, respectively, with aggregate intrinsic values of \$4 million and \$10 million, respectively. All outstanding options were vested and exercisable at June 30, 2022. We did not grant any stock options during the six months ended June 30, 2022 or 2021.

The following table summarizes information about our outstanding stock options at June 30, 2022:

Range of Exercise Prices	Options Outstanding and Exercisable		
	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price Per Share
\$18.99 to \$20.609	293,796	5.1 years	\$ 19.75
\$20.61 to \$35.430	167,151	6.5 years	\$ 29.62
	460,947	5.6 years	\$ 23.33

Restricted Stock Units

The following table summarizes activity with respect to restricted stock units ("RSUs") during the six months ended June 30, 2022:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value Per Unit
Unvested at December 31, 2021	2,171,202	\$ 40.51
Granted	633,880	\$ 81.25
Vested	(814,507)	\$ 30.81
Forfeited	(46,064)	\$ 51.61
Unvested at June 30, 2022	1,944,511	\$ 63.21

In the six months ended June 30, 2022, we granted an aggregate of 633,880 RSUs. Of these, 237,381 will vest and be settled ratably over a three-year period from the grant date, 53,716 will vest and be settled ratably over 11 quarterly periods from the grant date, 9,215 will vest and be settled ratably over a four-year period from the grant date, 4,608 will vest on the

second anniversary of the grant date, and 6,170 will vest evenly on the third and fourth anniversaries of the grant date. We also granted 35,482 RSUs to our non-employee directors for the 2022-2023 board service year, which units vested immediately and will settle on the third anniversary of the grant date. In addition, we granted 287,308 performance-based RSUs; the vesting of these RSUs is contingent on our achievement of specified performance goals for the years 2022 to 2024. Provided the goals are achieved, the performance-based RSUs will vest and settle on the third anniversary of the grant date. The actual number of performance-based RSUs that could vest will range from 0% to 200% of the 287,308 units granted, depending on our level of achievement with respect to the performance goals.

In the six months ended June 30, 2021, we granted an aggregate of 749,110 RSUs. Of these, 261,997 will vest and be settled ratably over a three-year period from the grant date, 189,215 will vest and be settled ratably over eight quarterly periods from the grant date, and 14,192 vested on December 31, 2021. We also granted 39,738 RSUs to our non-employee directors. These consisted of 36,681 RSUs for the 2021-2022 board service year, 1,372 RSUs for an initial grant to a then-new member of our board of directors and 1,685 RSUs for a pro-rata annual grant to the same board member. Both the initial grant and the annual grant vested immediately; however, the initial grant settles upon separation from the board, while the annual grant settles on the third anniversary of the grant date. In addition, we granted 243,076 performance-based RSUs; the vesting of these RSUs is contingent on our achievement of specified performance goals for the years 2021 to 2023. Provided the goals are achieved, the performance-based RSUs will vest and settle on the third anniversary of the grant date. The actual number of performance-based RSUs that could vest will range from 0% to 200% of the 243,076 units granted, depending on our level of achievement with respect to the performance goals. During the six months ended June 30, 2021, we also granted 892 RSUs that vested and settled immediately as a result of our level of achievement with respect to certain performance-based RSUs granted in 2018.

The fair value of an RSU is based on our share price on the grant date. For certain of the performance-based RSU grants, the number of units that will ultimately vest is subject to adjustment based on the achievement of a market-based condition. The fair value of these RSUs is estimated through the use of a Monte Carlo simulation. Significant inputs used in our valuation of these RSUs included the following:

	Six Months Ended June 30,	
	2022	2021
Expected volatility	39.6% - 68.1%	71.8% - 79.3%
Risk-free interest rate	1.0% - 1.7%	0.1% - 0.2%

At June 30, 2022, there were \$67 million of total unrecognized compensation costs related to RSUs. These costs are expected to be recognized over a weighted average period of 1.9 years.

USPI Management Equity Plan

USPI maintains a separate management equity plan (the “USPI Management Equity Plan”) under which it grants RSUs representing a contractual right to receive one share of USPI’s non-voting common stock in the future. The vesting of RSUs granted under the plan varies based on the terms of the underlying award agreement. Once the requisite holding period is met, during specified times, the participant can sell the underlying shares to USPI at their estimated fair market value. At our sole discretion, the purchase of any non-voting common shares can be made in cash or in shares of Tenet’s common stock.

The following table summarizes RSU activity under the USPI Management Equity Plan during the six months ended June 30, 2022:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value Per Unit
Unvested at December 31, 2021	1,494,882	\$ 34.13
Vested	(369,691)	\$ 34.13
Forfeited	(135,800)	\$ 34.13
Unvested at June 30, 2022	989,391	\$ 34.13

No new grants were made under the USPI Management Equity Plan during the six months ended June 30, 2022. During the six months ended June 30, 2021, we granted 76,990 RSUs under the USPI Management Equity Plan. Twenty percent of these RSUs vests on each of the first and second anniversaries of the grant date, and the remaining 60% vests on the third anniversary of the grant date.

In the six months ended June 30, 2022, USPI paid less than \$1 million in cash to repurchase a portion of the non-voting common stock issued under the USPI Management Equity Plan. No shares were repurchased during the six months ended June 30, 2021.

NOTE 9. EQUITY

The following tables present the changes in consolidated equity (dollars in millions, share amounts in thousands):

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock	Noncontrolling Interests	Total Equity
	Shares Outstanding	Issued Par Amount						
Balances at December 31, 2021	107,189	\$ 8	\$ 4,877	\$ (233)	\$ (1,214)	\$ (2,410)	\$ 1,026	\$ 2,054
Net income	—	—	—	—	140	—	46	186
Distributions paid to noncontrolling interests	—	—	—	—	—	—	(71)	(71)
Accretion of redeemable noncontrolling interests	—	—	(95)	—	—	—	—	(95)
Sales of businesses and noncontrolling interests, net	—	—	(7)	—	—	—	(1)	(8)
Stock-based compensation expense and issuance of common stock	499	—	(10)	—	—	—	—	(10)
Balances at March 31, 2022	107,688	\$ 8	\$ 4,765	\$ (233)	\$ (1,074)	\$ (2,410)	\$ 1,000	\$ 2,056
Net income	—	—	—	—	38	—	58	96
Distributions paid to noncontrolling interests	—	—	—	—	—	—	(38)	(38)
Other comprehensive income	—	—	—	2	—	—	—	2
Accretion of redeemable noncontrolling interests	—	—	(9)	—	—	—	—	(9)
Purchases (sales) of businesses and noncontrolling interests, net	—	—	(23)	—	—	—	7	(16)
Stock-based compensation expense and issuance of common stock	142	—	23	—	—	—	—	23
Balances at June 30, 2022	107,830	\$ 8	\$ 4,756	\$ (231)	\$ (1,036)	\$ (2,410)	\$ 1,027	\$ 2,114

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock	Noncontrolling Interests	Total Equity
	Shares Outstanding	Issued Par Amount						
Balances at December 31, 2020	106,070	\$ 7	\$ 4,844	\$ (281)	\$ (2,128)	\$ (2,414)	\$ 909	\$ 937
Net income	—	—	—	—	97	—	44	141
Distributions paid to noncontrolling interests	—	—	—	—	—	—	(61)	(61)
Other comprehensive loss	—	—	—	(1)	—	—	—	(1)
Accretion of redeemable noncontrolling interests	—	—	(3)	—	—	—	—	(3)
Purchases (sales) of businesses and noncontrolling interests, net	—	—	(10)	—	—	—	1	(9)
Stock-based compensation expense and issuance of common stock	617	1	10	—	—	1	—	12
Balances at March 31, 2021	106,687	\$ 8	\$ 4,841	\$ (282)	\$ (2,031)	\$ (2,413)	\$ 893	\$ 1,016
Net income	—	—	—	—	119	—	58	177
Distributions paid to noncontrolling interests	—	—	—	—	—	—	(43)	(43)
Other comprehensive income	—	—	—	5	—	—	—	5
Accretion of redeemable noncontrolling interests	—	—	(4)	—	—	—	—	(4)
Purchases of businesses and noncontrolling interests, net	—	—	3	—	—	—	—	3
Stock-based compensation expense and issuance of common stock	180	—	14	—	—	1	—	15
Balances at June 30, 2021	106,867	\$ 8	\$ 4,854	\$ (277)	\$ (1,912)	\$ (2,412)	\$ 908	\$ 1,169

Our noncontrolling interests balances at June 30, 2022 and December 31, 2021 were comprised of \$132 million and \$128 million, respectively, from our Hospital Operations segment, and \$895 million and \$898 million, respectively, from our Ambulatory Care segment. Our net income available to noncontrolling interests for the six months ended June 30, 2022 and

2021 in the tables above were comprised of \$95 million and \$93 million, respectively, from our Ambulatory Care segment and \$9 million from our Hospital Operations segment in each of the six-month periods.

NOTE 10. NET OPERATING REVENUES

Net operating revenues for our Hospital Operations 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* 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 health systems, individual hospitals and physician practices.

The table below presents our sources of net operating revenues less implicit price concessions from continuing operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Hospital Operations:				
Net patient service revenues from hospitals and related outpatient facilities:				
Medicare	\$ 579	\$ 697	\$ 1,198	\$ 1,385
Medicaid	248	288	440	547
Managed care	2,324	2,545	4,819	5,025
Uninsured	36	60	74	107
Indemnity and other	161	192	325	368
Total	3,348	3,782	6,856	7,432
Other revenues ⁽¹⁾	297	313	587	610
Hospital Operations total prior to inter-segment eliminations	3,645	4,095	7,443	8,042
Ambulatory Care	771	664	1,509	1,310
Conifer	333	319	657	629
Inter-segment eliminations	(111)	(124)	(226)	(246)
Net operating revenues	\$ 4,638	\$ 4,954	\$ 9,383	\$ 9,735

⁽¹⁾ Primarily physician practices revenues.

Adjustments for prior-year cost reports and related valuation allowances, principally related to Medicare and Medicaid, increased revenues in the six months ended June 30, 2022 and 2021 by \$7 million and \$19 million, respectively. Estimated cost report settlements and valuation allowances were 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 the final determination of amounts earned under all the above arrangements with Medicare and Medicaid.

The table below presents the composition of net operating revenues for our Ambulatory Care segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net patient service revenues	\$ 741	\$ 638	\$ 1,445	\$ 1,257
Management fees	24	21	53	43
Revenue from other sources	6	5	11	10
Net operating revenues	\$ 771	\$ 664	\$ 1,509	\$ 1,310

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue cycle services – Tenet	\$ 108	\$ 120	\$ 220	\$ 238
Revenue cycle services – other clients	202	175	391	344
Other services – Tenet	3	4	6	8
Other services – other clients	20	20	40	39
Net operating revenues	\$ 333	\$ 319	\$ 657	\$ 629

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 primarily 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, variable-based rate escalators, 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 December 31, 2032.

	Total	Six Months	Years Ending				Later Years
		Ending	December 31,				
		2022	2023	2024	2025	2026	
Performance obligations	\$ 6,294	\$ 325	\$ 650	\$ 591	\$ 591	\$ 591	\$ 3,546

NOTE 11. 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, 2022 through March 31, 2023, 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, \$25 million for floods and named windstorms, 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 \$5 million.

We also purchase cyber liability insurance from third parties. In April 2022, we experienced a cybersecurity incident that temporarily disrupted a subset of our acute care operations and involved the exfiltration of certain confidential company and patient information (the “Cybersecurity Incident”). We estimate that the Cybersecurity Incident had an adverse pre-tax impact of approximately \$100 million during the three months ended June 30, 2022. This estimate includes the costs to remediate the issues, lost revenues from the associated business interruption and other related expenses. We have filed a claim within our policy limits. Insurance recoveries of \$5 million related to this claim were recorded during the three months ended June 30, 2022.

We are self-insured for the majority of our professional and general liability claims, and we purchase insurance from third-parties to cover catastrophic claims. At June 30, 2022 and December 31, 2021, the aggregate current and long-term professional and general liability reserves in the accompanying Condensed Consolidated Balance Sheets were \$1.061 billion and \$1.045 billion, 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. Malpractice expense of \$138 million and \$179 million was included in other operating expenses, net, in the accompanying Condensed Consolidated Statements of Operations for the six months ended June 30, 2022 and 2021, respectively.

All commercial insurance we purchase is subject to per-claim and policy period aggregate limits. If the policy period aggregate limit of any of our 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.

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 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, but are subject to significant uncertainty regarding numerous factors that could affect the ultimate loss levels. 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. Given the inherent uncertainties associated with these matters, especially those involving governmental agencies, and the indeterminate damages sought in some cases, there is significant uncertainty as to the ultimate liability we may incur from these matters, and an adverse outcome in one or more of these matters could be material to our results of operations or cash flows for any particular reporting period.

Government Investigation of Detroit Medical Center

Detroit Medical Center (“DMC”) is subject to an ongoing investigation commenced in October 2017 by the U.S. Attorney’s Office for the Eastern District of Michigan and the Civil Division of the U.S. Department of Justice (“DOJ”) for potential violations of the Stark law, the Medicare and Medicaid anti-kickback and anti-fraud and abuse amendments codified under Section 1128B(b) of the Social Security Act, and the federal False Claims Act related to DMC’s employment of nurse practitioners and physician assistants (“Mid-Level Practitioners”) from 2006 through 2017. As previously disclosed, a media report was published in August 2017 alleging that 14 Mid-Level Practitioners were terminated by DMC earlier in 2017 due to compliance concerns. The DOJ issued a civil investigative demand to DMC for documents and interrogatories in September 2021. We are cooperating with the investigation.

Other Matters

In July 2019, certain of the entities that purchased the operations of Hahnemann University Hospital and St. Christopher’s Hospital for Children in Philadelphia from us commenced Chapter 11 bankruptcy proceedings. In the three months ended December 31, 2021, we established a reserve of \$23 million for certain obligations related to the sale of the hospitals and the subsequent bankruptcy proceedings of the buyers.

We are also subject to 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 and privacy 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, including lawsuits from patients, employees and others exposed to COVID-19 at our facilities. These matters could (i) 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, (ii) cause us to incur substantial expenses, (iii) require significant time and attention from our management, and (iv) cause us to close or sell hospitals or otherwise modify the way we conduct business.

The following table presents reconciliations of the beginning and ending liability balances in connection with legal settlements and related costs recorded in continuing operations:

	Balances at Beginning of Period	Litigation and Investigation Costs	Cash Payments	Other	Balances at End of Period
Six Months Ended June 30, 2022	\$ 78	\$ 38	\$ (58)	\$ 3	\$ 61
Six Months Ended June 30, 2021	\$ 26	\$ 35	\$ (29)	\$ —	\$ 32

NOTE 13. REDEEMABLE NONCONTROLLING INTERESTS IN EQUITY OF CONSOLIDATED SUBSIDIARIES

Our put/call agreement (the “Baylor Put/Call Agreement”) with Baylor contained put and call options with respect to the 5% ownership interest Baylor held in USPI until June 30, 2022. The Baylor Put/Call Agreement gave Baylor the option to annually put up to one-third of its total shares in USPI (the “Baylor Shares”) over a period of three years beginning in 2021. We had the right to call the difference between the number of shares Baylor put each year and the maximum number of shares it could have put. Based on the nature of the Baylor Put/Call Agreement, Baylor’s minority interest in USPI was classified as a redeemable noncontrolling interest in the accompanying Condensed Consolidated Balance Sheet at December 31, 2021. During

the six months ended June 30, 2022 and 2021, we recognized accretion totaling \$102 million and \$5 million, respectively, and a corresponding decrease in additional paid-in capital related to Baylor's minority interest in USPI.

In each of 2021 and 2022, we notified Baylor of our intention to exercise our call option to purchase 33.3% of the Baylor Shares for that year (66.6% in total). In June 2022, we entered into an agreement with Baylor (the "Share Purchase Agreement") to complete the purchase of the Baylor Shares we called in 2021 and 2022 and to accelerate the acquisition of the remaining Baylor Shares eligible to be put/called in 2023. Under the terms of the Share Purchase Agreement, we agreed to pay Baylor \$406 million to buy its entire 5% voting ownership interest in USPI. We paid \$11 million upon execution of the Share Purchase Agreement and will make 35 additional non-interest bearing monthly payments of approximately \$11 million beginning in August 2022. We recorded the present value of the purchase price as a liability on our balance sheet, with an offset to redeemable noncontrolling interest of \$365 million for the carrying amount of the shares and \$23 million to additional paid-in capital for the difference between the carrying value and present value of the purchase price for the shares. At June 30, 2022, we had liabilities of \$124 million recorded in other current liabilities and \$253 million in other long-term liabilities in the accompanying Condensed Consolidated Balance Sheet for the purchase of these shares.

The following table presents the changes in redeemable noncontrolling interests in equity of consolidated subsidiaries:

	Six Months Ended June 30,	
	2022	2021
Balances at beginning of period	\$ 2,203	\$ 1,952
Net income	177	161
Distributions paid to noncontrolling interests	(201)	(108)
Accretion of redeemable noncontrolling interests	104	7
Purchases and sales of businesses and noncontrolling interests, net	(286)	22
Balances at end of period	\$ 1,997	\$ 2,034

Distributions paid to noncontrolling interests during the six months ended June 30, 2022 included \$61 million of proceeds related to the sale of several medical office buildings previously owned by our Hospital Operations segment.

The following table presents the composition by segment of our redeemable noncontrolling interests balances:

	June 30, 2022	December 31, 2021
Hospital Operations	\$ 236	\$ 297
Ambulatory Care	1,245	1,425
Conifer	516	481
Redeemable noncontrolling interests	\$ 1,997	\$ 2,203

The following table presents our net income available to redeemable noncontrolling interests by segment:

	Six Months Ended June 30,	
	2022	2021
Hospital Operations	\$ 24	\$ 16
Ambulatory Care	118	112
Conifer	35	33
Net income available to redeemable noncontrolling interests	\$ 177	\$ 161

NOTE 14. INCOME TAXES

During the three months ended June 30, 2022, we recorded income tax expense of \$86 million in continuing operations on pre-tax income of \$265 million compared to \$61 million on pre-tax income of \$319 million during the three months ended June 30, 2021. During the six months ended June 30, 2022, we recorded income tax expense of \$185 million in continuing operations on pre-tax income of \$643 million compared to \$106 million on pre-tax income of \$586 million during the six months ended June 30, 2021. Our provision for income taxes during interim reporting periods is calculated by applying an estimate of the annual effective tax rate to "ordinary" income or loss (pre-tax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period. In calculating "ordinary" income, non-taxable income or loss attributable to noncontrolling interests was deducted from pre-tax income.

A reconciliation between the amount of reported income tax expense and the amount computed by multiplying income from continuing operations before income taxes by the statutory federal tax rate is presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Tax expense at statutory federal rate of 21%	\$ 56	\$ 67	\$ 135	\$ 123
State income taxes, net of federal income tax benefit	11	14	25	26
Tax benefit attributable to noncontrolling interests	(28)	(28)	(57)	(53)
Nondeductible goodwill	1	7	1	7
Stock-based compensation tax benefit	(1)	(2)	(3)	(3)
Changes in valuation allowance	45	—	77	—
Other items	2	3	7	6
Income tax expense	\$ 86	\$ 61	\$ 185	\$ 106

During the six months ended June 30, 2022, we recorded income tax expense of \$77 million to increase the valuation allowance for interest expense carryforwards, including \$39 million due to a change in the business interest expense disallowance rules in 2022.

We increased our estimated liabilities for uncertain tax positions during the six months ended June 30, 2022 by \$1 million. The total amount of unrecognized tax benefits as of June 30, 2022 was \$35 million, of which \$33 million, if recognized, would affect our effective tax rate and income tax expense from continuing operations.

Our practice is to recognize interest and penalties related to income tax matters in income tax expense in our condensed consolidated statements of operations. We did not have any interest or penalties on unrecognized tax benefits accrued at June 30, 2022.

As of June 30, 2022, no significant changes in unrecognized federal and state tax benefits were expected in the next 12 months as a result of the settlement of audits, the filing of amended tax returns or the expiration of statutes of limitations.

NOTE 15. EARNINGS PER COMMON SHARE

The following tables reconcile the numerators and denominators of our basic and diluted earnings per common share calculations for our continuing operations. Net income available to our common shareholders is expressed in millions and weighted average shares are expressed in thousands.

	Net Income Available to Common Shareholders (Numerator)	Weighted Average Shares (Denominator)	Per-Share Amount
Three Months Ended June 30, 2022			
Net income available to Tenet Healthcare Corporation common shareholders for basic earnings per share	\$ 38	107,790	\$ 0.35
Effect of dilutive stock options, restricted stock units, deferred compensation units, convertible instruments and dividends on preferred stock	—	960	—
Net income available to Tenet Healthcare Corporation common shareholders for diluted earnings per share	\$ 38	108,750	\$ 0.35
Three Months Ended June 30, 2021			
Net income available to Tenet Healthcare Corporation common shareholders for basic earnings per share	\$ 120	106,822	\$ 1.12
Effect of dilutive stock options, restricted stock units and deferred compensation units	—	1,747	(0.01)
Net income available to Tenet Healthcare Corporation common shareholders for diluted earnings per share	\$ 120	108,569	\$ 1.11

	Net Income Available to Common Shareholders (Numerator)	Weighted Average Shares (Denominator)	Per-Share Amount
Six Months Ended June 30, 2022			
Net income available to Tenet Healthcare Corporation common shareholders for basic earnings per share	\$ 177	107,636	\$ 1.64
Effect of dilutive stock options, restricted stock units, deferred compensation units, convertible instruments and dividends on preferred stock	9	6,418	(0.01)
Net income available to Tenet Healthcare Corporation common shareholders for diluted earnings per share	\$ 186	114,054	\$ 1.63
Six Months Ended June 30, 2021			
Net income available to Tenet Healthcare Corporation common shareholders for basic earnings per share	\$ 217	106,566	\$ 2.04
Effect of dilutive stock options, restricted stock units and deferred compensation units	—	1,751	(0.04)
Net income available to Tenet Healthcare Corporation common shareholders for diluted earnings per share	\$ 217	108,317	\$ 2.00

During the three and six months ended June 30, 2022, our convertible instruments consisted of (i) the Baylor Put/Call Agreement, (ii) an agreement related to the ownership interest in a Hospital Operations segment joint venture, and (iii) RSUs issued under the USPI Management Equity Plan. As further discussed in Note 13, we purchased all of the shares underlying the Baylor Put/Call Agreement in June 2022. See Note 8 for additional information about the RSUs issued under the USPI Management Equity Plan.

NOTE 16. FAIR VALUE MEASUREMENTS

Fair Value Measurements

We are required to provide additional disclosures about fair value measurements as part of our financial statements for each major category of assets and liabilities measured at fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities, which generally are not applicable to non-financial assets and liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as definitive sales agreements, appraisals or established market values of comparable assets. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability and include situations where there is little, if any, market activity for the asset or liability, such as internal estimates of future cash flows.

Our non-financial assets and liabilities not permitted or required to be measured at fair value on a recurring basis typically relate to long-lived assets held and used, long-lived assets held for sale and goodwill. There were no such assets or liabilities requiring fair value measurement at June 30, 2022.

Financial Instruments

The fair value of our long-term debt (except for borrowings under the Credit Agreement) is based on quoted market prices (Level 1). The inputs used to establish the fair value of the borrowings outstanding under the Credit Agreement are considered to be Level 2 inputs, which include inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly. At June 30, 2022 and December 31, 2021, the estimated fair value of our long-term debt was approximately 90.2% and 103.3%, respectively, of the carrying value of the debt.

NOTE 17. ACQUISITIONS

Preliminary purchase price allocations (representing the fair value of the consideration conveyed) for all acquisitions made during the six months ended June 30, 2022 and 2021 are as follows:

	Six Months Ended June 30,	
	2022	2021
Current assets	\$ 6	\$ 9
Property and equipment	26	27
Other intangible assets	2	1
Goodwill	206	76
Other long-term assets	22	9
Previously held investments in unconsolidated affiliates	(73)	—
Current liabilities	(9)	(16)
Long-term liabilities	(38)	(11)
Redeemable noncontrolling interests in equity of consolidated subsidiaries	(68)	(28)
Noncontrolling interests	(9)	(2)
Cash paid, net of cash acquired	(66)	(64)
Gains (losses) on consolidations	\$ (1)	\$ 1

The goodwill generated from these transactions, the majority of which will be deductible for income tax purposes, can be attributed to the benefits that we expect to realize from operating efficiencies and growth strategies. The goodwill total of \$206 million from acquisitions completed during the six months ended June 30, 2022 was recorded in our Ambulatory Care segment. Approximately \$6 million and \$5 million in transaction costs related to prospective and closed acquisitions were expensed during the six-month periods ended June 30, 2022 and 2021, respectively, and were included in impairment and restructuring charges, and acquisition-related costs in the accompanying Condensed Consolidated Statements of Operations.

We are required to allocate the purchase prices of acquired businesses to assets acquired or liabilities assumed and, if applicable, noncontrolling interests based on their fair values. The excess of the purchase price allocated over those fair values is recorded as goodwill. The purchase price allocations for certain acquisitions completed in 2022 and 2021 are preliminary. We are in the process of assessing working capital balances, as well as obtaining and evaluating valuations of the acquired property and equipment, management contracts and other intangible assets, and noncontrolling interests. Therefore, those purchase price allocations, including goodwill, recorded in the accompanying Condensed Consolidated Financial Statements are subject to adjustment once the assessments and valuation work are completed and evaluated. Such adjustments will be recorded as soon as practical and within the measurement period as defined by the accounting literature.

During the six months ended June 30, 2022, we adjusted the initial purchase allocation of certain acquisitions completed in 2021 based on the results of completed valuations. These adjustments resulted in a net increase in goodwill of \$16 million.

NOTE 18. SEGMENT INFORMATION

Our business consists of our Hospital Operations segment, our Ambulatory Care segment and our Conifer segment. The factors for determining the reportable segments include the manner in which management evaluates operating performance combined with the nature of the individual business activities.

Our Hospital Operations segment is comprised of acute care and specialty hospitals, imaging centers, ancillary outpatient facilities, micro-hospitals and physician practices. At June 30, 2022, our subsidiaries operated 60 hospitals serving primarily urban and suburban communities in nine states. On April 1, 2021, we transferred 24 imaging centers from our Ambulatory Care segment to our Hospital Operations segment. The total assets associated with the imaging centers transferred to our Hospital Operations segment constituted less than 1% of our consolidated total assets at March 31, 2021. Also in April 2021, we completed the sale of the majority of the urgent care centers then held by our Hospital Operations segment to an unaffiliated urgent care provider. In addition, we completed the sale of five Miami-area hospitals and certain related operations in August 2021. In April 2022, we completed the sale of a Hospital Operations segment micro-hospital.

Our Ambulatory Care segment is comprised of the operations of USPI. At June 30, 2022, USPI had interests in 410 ambulatory surgery centers (261 consolidated) and 24 surgical hospitals (eight consolidated) in 34 states. In April 2021, we completed the sale of 40 urgent care centers then held by our Ambulatory Care segment to an unaffiliated urgent care provider and, as noted above, transferred 24 imaging centers from our Ambulatory Care segment to our Hospital Operations segment. Effective June 30, 2022, we purchased all of the shares previously held by Baylor in USPI for \$406 million, which increased

our ownership interest in USPI's voting shares from 95% to 100%. See Note 13 for additional information about this transaction.

Our Conifer segment provides revenue cycle management and value-based care services to hospitals, health systems, physician practices, employers and other clients. At June 30, 2022, Conifer provided services to approximately 660 Tenet and non-Tenet hospitals and other clients nationwide. Conifer provides revenue management, administrative services and various other services to Tenet hospitals. We believe the pricing terms for these services are commercially reasonable and consistent with estimated third-party terms. At June 30, 2022, we owned approximately 76% of Conifer Health Solutions, LLC, which is Conifer's principal subsidiary.

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

	June 30, 2022		December 31, 2021	
Assets:				
Hospital Operations	\$	16,111	\$	17,173
Ambulatory Care		9,600		9,473
Conifer		910		933
Total	\$	26,621	\$	27,579
Capital expenditures:				
	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Hospital Operations	\$ 130	\$ 90	\$ 262	\$ 200
Ambulatory Care	19	27	40	35
Conifer	3	5	5	8
Total	\$ 152	\$ 122	\$ 307	\$ 243
Net operating revenues:				
Hospital Operations total prior to inter-segment eliminations	\$ 3,645	\$ 4,095	\$ 7,443	\$ 8,042
Ambulatory Care	771	664	1,509	1,310
Conifer				
Tenet	111	124	226	246
Other clients	222	195	431	383
Total Conifer revenues	333	319	657	629
Inter-segment eliminations	(111)	(124)	(226)	(246)
Total	\$ 4,638	\$ 4,954	\$ 9,383	\$ 9,735
Equity in earnings of unconsolidated affiliates:				
Hospital Operations	\$ 2	\$ 5	\$ 6	\$ 9
Ambulatory Care	52	49	94	87
Total	\$ 54	\$ 54	\$ 100	\$ 96
Adjusted EBITDA:				
Hospital Operations	\$ 431	\$ 449	\$ 945	\$ 883
Ambulatory Care	319	295	601	552
Conifer	93	90	185	176
Total	\$ 843	\$ 834	\$ 1,731	\$ 1,611
Depreciation and amortization:				
Hospital Operations	\$ 179	\$ 188	\$ 346	\$ 378
Ambulatory Care	28	23	55	48
Conifer	9	10	18	19
Total	\$ 216	\$ 221	\$ 419	\$ 445

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Adjusted EBITDA	\$ 843	\$ 834	\$ 1,731	\$ 1,611
Depreciation and amortization	(216)	(221)	(419)	(445)
Impairment and restructuring charges, and acquisition-related costs	(57)	(20)	(73)	(40)
Litigation and investigation costs	(18)	(22)	(38)	(35)
Interest expense	(222)	(235)	(449)	(475)
Loss from early extinguishment of debt	(66)	(31)	(109)	(54)
Other non-operating income (expense), net	—	(1)	—	9
Net gains on sales, consolidation and deconsolidation of facilities	1	15	—	15
Income from continuing operations, before income taxes	\$ 265	\$ 319	\$ 643	\$ 586

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

INTRODUCTION TO MANAGEMENT’S DISCUSSION AND ANALYSIS

The purpose of this section, Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”), is to provide a narrative explanation of our financial statements that enables investors to better understand our business, to enhance our overall financial disclosures, to provide the context within which our financial information may be analyzed, and to provide information about the quality of, and potential variability of, our financial condition, results of operations and cash flows. MD&A, which should be read in conjunction with the accompanying Condensed Consolidated Financial Statements, includes the following sections:

- Management Overview
- Forward-Looking Statements
- Sources of Revenue for Our Hospital Operations Segment
- Results of Operations
- Liquidity and Capital Resources
- Critical Accounting Estimates

Our business consists of our Hospital Operations and other (“Hospital Operations”) segment, our Ambulatory Care segment and our Conifer segment. Our Hospital Operations segment is comprised of acute care and specialty hospitals, imaging centers, ancillary outpatient facilities, micro-hospitals and physician practices. At June 30, 2022, our subsidiaries operated 60 hospitals serving primarily urban and suburban communities in nine states. In April 2021, we completed the sale of the majority of the urgent care centers then held by our Hospital Operations segment to an unaffiliated urgent care provider. In addition, in August 2021, we completed the sale of five Miami-area hospitals and certain related operations (the “Miami Hospitals”) then held by our Hospital Operations segment. In April 2022, we completed the sale of a Hospital Operations segment micro-hospital.

Our Ambulatory Care segment is comprised of the operations of USPI Holding Company, Inc. (“USPI”). USPI had indirect ownership interests in 410 ambulatory surgery centers (each, an “ASC”) (261 consolidated) and 24 surgical hospitals (eight consolidated) in 34 states at June 30, 2022. In April 2021, we completed the sale of 40 urgent care centers then held by our Ambulatory Care segment to an unaffiliated urgent care provider and transferred 24 imaging centers from our Ambulatory Care segment to our Hospital Operations segment. Effective June 30, 2022, we purchased all of the shares previously held by Baylor University Medical Center (“Baylor”) in USPI for \$406 million, which increased our ownership interest in USPI’s voting shares from 95% to 100%. See Note 13 to the accompanying Condensed Consolidated Financial Statements and the “Liquidity and Capital Resources” section of MD&A for additional information about this transaction.

Our Conifer segment provides revenue cycle management and value-based care services to hospitals, health systems, physician practices, employers and other clients through our Conifer Holdings, Inc. subsidiary (“Conifer”). At June 30, 2022, Conifer provided services to approximately 660 Tenet and non-Tenet hospitals and other clients nationwide. Nearly all of the services comprising the operations of our Conifer segment are provided by Conifer Health Solutions, LLC, in which we own an interest of approximately 76%, or by one of its direct or indirect wholly owned subsidiaries.

Unless otherwise indicated, all financial and statistical information included in MD&A relates to our continuing operations, with dollar amounts expressed in millions (except per-adjusted-patient-admission and per-adjusted-patient-day amounts). Continuing operations information includes the results of our same 60 hospitals operated throughout the six months ended June 30, 2022 and 2021, as well as the Miami Hospitals sold in August 2021 and the Arizona micro-hospital sold in April 2022. Continuing operations information excludes the results of our hospitals and other businesses that have been classified as discontinued operations for accounting purposes. We believe this information is useful to investors because it includes the operations of all facilities in continuing operations for the period of time that we owned and operated them, and it reflects the recent trends we are experiencing with respect to volumes, revenues and expenses. We present certain metrics as a percentage of net operating revenues because a significant portion of our operating expenses are variable. In addition, we present certain metrics on a per-adjusted-patient-admission and per-adjusted-patient-day basis to show trends other than volume.

In certain cases, information presented in MD&A for our Hospital Operations segment is described as presented on a same-hospital basis, which includes the results of our same 60 hospitals operated throughout the six months ended June 30, 2022 and 2021, and excludes the results of the Miami Hospitals we sold in August 2021, the results of the Arizona micro-hospital sold in April 2022 and the results of our discontinued operations. We present same-hospital data because we believe it provides investors with useful information regarding the performance of our current portfolio of hospitals and other

operations that are comparable for the periods presented, as well as reflects recent trends we are experiencing with respect to volumes, revenues and expenses.

MANAGEMENT OVERVIEW

RECENT DEVELOPMENTS

Formation of New Joint Venture—On July 15, 2022, USPI completed the previously announced formation of a new joint venture with United Urology Group (“UUG”), including the purchase of ownership interests in 22 new and established ASCs located in Maryland, Colorado and Arizona, which USPI will manage and consolidate. USPI paid \$105 million in connection with this transaction.

IMPACT OF THE COVID-19 PANDEMIC

The COVID-19 pandemic continued to adversely impact all three segments of our business, as well as our patients, communities and employees, in the six months ended June 30, 2022. Broad economic factors resulting from the pandemic affected our patient volumes, service mix and revenue mix. In addition, the pandemic continued to have an adverse impact on certain of our operating expenses during the six months ended June 30, 2022.

Various federal legislative actions, including additional funding for the Public Health and Social Services Emergency Fund (“PRF”), have mitigated some of the economic disruption caused by the COVID-19 pandemic on our business. In the six months ended June 30, 2022 and 2021, we received cash payments from the PRF and state and local grant programs totaling \$104 million and \$63 million, respectively, including \$27 million received during the six-month period in 2021 by our unconsolidated affiliates for whom we provide cash management services. We recognized \$100 million and \$50 million, respectively, from these funds as grant income during the six-month periods in 2022 and 2021, respectively. In addition, we recognized \$11 million in equity in earnings of unconsolidated affiliates in the accompanying Condensed Consolidated Statement of Operations during the six months ended June 30, 2021.

Throughout MD&A, we have provided additional information on the impact of the COVID-19 pandemic on our results of operations and the steps we have taken, and are continuing to take, in response. The ultimate extent and scope of the pandemic and its future impact on our business remain unknown. For information about risks and uncertainties related to COVID-19 that could affect our results of operations, financial condition and cash flows, see the Risk Factors section in Part I of our Annual Report on Form 10-K for the year ended December 31, 2021 (“Annual Report”) and in Part II of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2022 (“Q1’22 Report”).

CYBERSECURITY INCIDENT

In April 2022, we experienced a cybersecurity incident that temporarily disrupted a subset of our acute care operations and involved the exfiltration of certain confidential company and patient information (the “Cybersecurity Incident”). During this time, our hospitals remained operational and continued to deliver patient care safely and effectively, utilizing well-established back-up processes. We immediately suspended user access to impacted information technology applications, executed extensive cybersecurity protection protocols, and took steps to restrict further unauthorized activity. We have restored impacted information technology operations, and we have taken additional measures to protect patient, employee and other data, as appropriate, in response to the Cybersecurity Incident.

Disruption from the Cybersecurity Incident placed pressure on our Hospital Operations segment’s volumes and earnings in April and May 2022. We believe a significant portion of the 5.3% decline in our adjusted patient admissions on a same-hospital basis in the three months ended June 30, 2022 as compared to the same period in 2021 is due to business interruption from the incident. In addition, we estimate that the Cybersecurity Incident had an adverse pre-tax impact of approximately \$100 million during the three months ended June 30, 2022. This estimate includes the costs to remediate the issues, lost revenues from the associated business interruption and other related expenses. We have insurance coverage and have filed a claim within our policy limits for these losses. We are unable to predict or control the timing or amount of insurance recoveries.

TRENDS AND STRATEGIES

As described above and throughout MD&A, we continue to experience negative impacts of the pandemic on our business in varying degrees. Throughout the COVID-19 pandemic, we have taken, and we continue to take, various actions to increase our liquidity and mitigate the impact of reductions in our patient volumes and changes in our service mix and revenue mix. We have issued new senior unsecured notes and senior secured first lien notes, redeemed existing senior unsecured notes and senior secured first lien notes, including those with the highest interest rates of all of our long-term debt, and amended our

senior secured revolving credit facility (as amended to date, the “Credit Agreement”). We also decreased our employee headcount throughout the organization at the outset of the COVID-19 pandemic, and we deferred certain operating expenses that were not expected to impact our response to the pandemic. In addition, we reduced certain variable costs across the enterprise. Together with government relief packages, we believe these actions supported our ability to provide essential patient services during the initial uncertainty caused by the COVID-19 pandemic and continue to do so. For further information on our liquidity, see “Liquidity and Capital Resources” below.

We have experienced, and continue to experience, increased competition with other healthcare providers in recruiting and retaining qualified personnel responsible for the operation of our facilities. There is a limited availability of experienced medical support personnel nationwide, which drives up the wages and benefits required to recruit and retain employees. In particular, like others in the healthcare industry, we continue to experience a shortage of critical-care nurses in certain disciplines and geographic areas. This shortage has been exacerbated by the COVID-19 pandemic as more nurses choose to retire early, leave the workforce or take travel assignments. In some areas, the increased demand for care of COVID-19 patients in our hospitals, as well as the direct impact of COVID-19 on physicians, employees and their families, have put a strain on our resources and staff. Over the past two years, we have had to rely on higher-cost temporary contract labor, which we compete with other healthcare providers to secure, and pay premiums above standard compensation for essential workers. In addition, we have experienced significant price increases in medical supplies, particularly for personal protective equipment (“PPE”), and we have encountered supply-chain disruptions, including shortages and delays.

We believe that several key trends are also continuing to shape the demand for healthcare services: (i) consumers, employers and insurers are actively seeking lower-cost solutions and better value as they focus more on healthcare spending; (ii) patient volumes are shifting from inpatient to outpatient settings due to technological advancements and demand for care that is more convenient, affordable and accessible; (iii) the growing aging population requires greater chronic disease management and higher-acuity treatment; and (iv) consolidation continues across the entire healthcare sector. In addition, the healthcare industry, in general, and the acute care hospital business, in particular, have experienced significant regulatory uncertainty based, in large part, on administrative, legislative and judicial efforts to limit, alter or repeal the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (“Affordable Care Act”). It is difficult to predict the full impact of regulatory uncertainty on our future revenues and operations.

Expansion of Our Ambulatory Care Segment—In response to these trends, we continue to focus on opportunities to expand our Ambulatory Care segment through acquisitions, organic growth, construction of new outpatient centers and strategic partnerships. During the years ended December 31, 2021 and 2020, we invested \$1.315 billion and \$1.200 billion, respectively, to acquire ownership interests in new ASCs, increase our ownership interests in existing facilities and invest in de novo facilities. This activity included the acquisition of ownership interests in 86 ASCs and related ambulatory support services (collectively, the “SCD Centers”) from Surgical Center Development #3, LLC and Surgical Center Development #4, LLC (“SCD”) in December 2021. USPI and SCD’s principals have also entered into a joint venture and development agreement under which USPI will have the exclusive option to partner with affiliates of SCD on the future development of a minimum target of 50 de novo ASCs over a period of five years. During the six months ended June 30, 2022, we opened three new ASCs in partnership with the affiliates of SCD. In addition, USPI formed a new joint venture with UUG and acquired ownership interests in 22 new and established ASCs in July 2022. The ASCs, which will be managed and consolidated by USPI, are located in Arizona, Colorado and Maryland.

Also during the six months ended June 30, 2022, we acquired controlling interests in three ASCs in Florida and one in each of Arizona and New Hampshire, and we acquired noncontrolling interests in an ASC in each of New Jersey and Texas. During the same period, we also acquired controlling ownership interests in nine previously unconsolidated ASCs in seven geographically diverse states. In addition, we opened six ASCs in various states in the first half of 2022, including the ASCs opened in partnership with affiliates of SCD as noted above. We believe USPI’s ASCs and surgical hospitals offer many advantages to patients and physicians, including greater affordability, predictability, flexibility and convenience. Moreover, due in part to advancements in medical technology and due to the lower cost structure and greater efficiencies that are attainable at a specialized outpatient site, we believe the volume and complexity of surgical cases performed in an outpatient setting will continue to increase. Historically, our outpatient services have generated significantly higher margins for us than inpatient services.

Driving Growth in Our Hospital Systems—We remain committed to better positioning our hospital systems and competing more effectively in the ever-evolving healthcare environment by focusing on driving performance through operational effectiveness, increasing capital efficiency and margins, investing in our physician enterprise, particularly our specialist network, enhancing patient and physician satisfaction, growing our higher-demand and higher-acuity clinical service lines (including outpatient lines), expanding patient and physician access, and optimizing our portfolio of assets. Over the past several years, we have undertaken enterprise-wide cost-efficiency measures, and we continue to transition certain support

operations offshore to our Global Business Center (“GBC”) in the Philippines. We incurred restructuring charges in conjunction with these initiatives in the six months ended June 30, 2022, and we could incur additional such charges in the future.

We regularly review the marginal costs of providing certain services, and we manage our operations and make staffing decisions based on those analyses. We also continue to exit service lines, businesses and markets that we believe are no longer a core part of our long-term growth strategy. In April 2021, we divested the majority of our urgent care centers operated under the MedPost and CareSpot brands by our Hospital Operations and Ambulatory Care segments. In addition, we completed the sale of the Miami Hospitals in August 2021 and the sale of an Arizona micro-hospital in April 2022. We intend to further refine our portfolio of hospitals and other healthcare facilities when we believe such refinements will help us improve profitability, allocate capital more effectively in areas where we have a stronger presence, deploy proceeds on higher-return investments across our business, enhance cash flow generation, reduce our debt and lower our ratio of debt-to-Adjusted EBITDA.

Improving the Customer Care Experience—As consumers continue to become more engaged in managing their health, we recognize that understanding what matters most to them and earning their loyalty is imperative to our success. As such, we have enhanced our focus on treating our patients as traditional customers by: (i) establishing networks of physicians and facilities that provide convenient access to services across the care continuum; (ii) expanding service lines aligned with growing community demand, including a focus on aging and chronic disease patients; (iii) offering greater affordability and predictability, including simplified registration and discharge procedures, particularly in our outpatient centers; (iv) improving our culture of service; and (v) creating health and benefit programs, patient education and health literacy materials that are customized to the needs of the communities we serve. Through these efforts, we intend to improve the customer care experience in every part of our operations.

Driving Conifer’s Growth—Conifer serves approximately 660 Tenet and non-Tenet hospitals and other clients nationwide. In addition to providing revenue cycle management services to health systems and physicians, Conifer provides support to both providers and self-insured employers seeking assistance with clinical integration, financial risk management and population health management. Conifer remains focused on driving growth by continuing to market and expand its revenue cycle management and value-based care solutions businesses. We believe that our success in growing Conifer and increasing its profitability depends in part on our success in executing the following strategies: (i) attracting hospitals and other healthcare providers that currently handle their revenue cycle management processes internally as new clients; (ii) generating new client relationships through opportunities from USPI and Tenet’s acute care hospital acquisition and divestiture activities; (iii) expanding revenue cycle management and value-based care service offerings through organic development and small acquisitions; and (iv) leveraging data from tens of millions of patient interactions for continued enhancement of the value-based care environment to drive competitive differentiation.

Improving Profitability—As we return to more normal operations, we continue to focus on growing patient volumes and effective cost management as a means to improve profitability. We believe our inpatient admissions have been constrained in recent years (prior to the COVID-19 pandemic) by increased competition, utilization pressure by managed care organizations, new delivery models that are designed to lower the utilization of acute care hospital services, the effects of higher patient co-pays, co-insurance amounts and deductibles, changing consumer behavior, and adverse economic conditions and demographic trends in certain of our markets. Our business has also been impacted by the rise in inflation and its effects on elective procedures, wages and costs. However, we also believe that emphasis on higher-demand clinical service lines (including outpatient services), focus on expanding our ambulatory care business, cultivation of our culture of service, participation in Medicare Advantage health plans that have been experiencing higher growth rates than traditional Medicare, and contracting strategies that create shared value with payers should help us grow our patient volumes over time. We are also continuing to explore new opportunities to enhance efficiency, including further integration of enterprise-wide centralized support functions, outsourcing additional functions unrelated to direct patient care, and reducing clinical and vendor contract variation.

Reducing Our Leverage Over Time—All of our long-term debt has a fixed rate of interest, except for outstanding borrowings, if any, under our Credit Agreement, and the maturity dates of our notes are staggered from 2024 through 2031. We believe that our capital structure minimizes the near-term impact of increased interest rates, and the staggered maturities of our debt allow us to refinance our debt over time. It remains our long-term objective to reduce our debt and lower our ratio of debt-to-Adjusted EBITDA, primarily through more efficient capital allocation and Adjusted EBITDA growth, which should lower our refinancing risk.

During the six months ended June 30, 2022, we redeemed or repurchased \$2.572 billion aggregate principal amount of our senior secured first lien and senior unsecured notes in advance of their maturity dates. We used the proceeds from our issuance of \$2.000 billion aggregate principal amount of 6.125% senior secured first lien notes due 2030 (the “2030 Senior Secured First Lien Notes”) and cash on hand to finance these transactions.

Our ability to execute on our strategies and respond to the aforementioned trends is subject to the extent and scope of the impact on our operations of the COVID-19 pandemic, as well as a number of other risks and uncertainties, all of which may cause actual results to be materially different from expectations. For information about risks and uncertainties that could affect our results of operations, see the Risk Factors section in Part II of our Q1'22 Report and the Forward-Looking Statements and Risk Factors sections in Part I of our Annual Report.

RESULTS OF OPERATIONS—OVERVIEW

The following tables present selected operating statistics for our Hospital Operations and Ambulatory Care segments, as well as consolidated net operating revenues and expenses on a continuing operations basis:

Selected Operating Statistics	Three Months Ended June 30,		Increase (Decrease)
	2022	2021	
Hospital Operations – hospitals and related outpatient facilities:			
Number of hospitals (at end of period)	60	65	(5) ⁽¹⁾
Total admissions	128,068	153,319	(16.5)%
Adjusted patient admissions ⁽²⁾	239,031	273,824	(12.7)%
Paying admissions (excludes charity and uninsured)	121,722	143,864	(15.4)%
Charity and uninsured admissions	6,346	9,455	(32.9)%
Admissions through emergency department	96,137	114,911	(16.3)%
Emergency department visits, outpatient	541,096	541,417	(0.1)%
Total emergency department visits	637,233	656,328	(2.9)%
Total surgeries	87,387	101,023	(13.5)%
Patient days — total	658,995	757,003	(12.9)%
Adjusted patient days ⁽²⁾	1,192,999	1,328,952	(10.2)%
Average length of stay (days)	5.15	4.94	4.3 %
Average licensed beds	15,382	17,170	(10.4)%
Utilization of licensed beds ⁽³⁾	47.1 %	48.4 %	(1.3)% ⁽¹⁾
Total visits	1,413,222	1,653,430	(14.5)%
Paying visits (excludes charity and uninsured)	1,331,959	1,540,577	(13.5)%
Charity and uninsured visits	81,263	112,853	(28.0)%
Ambulatory Care:			
Total consolidated facilities (at end of period)	269	232	37 ⁽¹⁾
Total consolidated cases	317,437	352,972	(10.1)%

⁽¹⁾ The change is the difference between the 2022 and 2021 amounts shown.

⁽²⁾ Adjusted patient admissions/days represents actual patient admissions/days adjusted to include outpatient services provided by facilities in our Hospital Operations segment by multiplying actual patient admissions/days by the sum of gross inpatient revenues and outpatient revenues and dividing the results by gross inpatient revenues.

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

Total admissions decreased by 25,251, or 16.5%, and total surgeries decreased by 13,636, or 13.5%, in the three months ended June 30, 2022 compared to the three months ended June 30, 2021. Total emergency department visits decreased 2.9% in the three months ended June 30, 2022 compared to the same period in 2021. These decreases in our patient volumes are primarily attributable to the impact of the Cybersecurity Incident on certain of our hospitals and the sale of the Miami Hospitals in August 2021. The decrease in Ambulatory Care total consolidated cases of 10.1% in the three months ended June 30, 2022 compared to the same period in 2021 is due primarily to the sale of the Ambulatory Care segment's urgent care centers to a third party in April 2021 and the impact of the COVID-19 pandemic.

Revenues	Three Months Ended June 30,		Increase (Decrease)
	2022	2021	
Net operating revenues:			
Hospital Operations prior to inter-segment eliminations	\$ 3,645	\$ 4,095	(11.0)%
Ambulatory Care	771	664	16.1 %
Conifer	333	319	4.4 %
Inter-segment eliminations	(111)	(124)	(10.5)%
Total	\$ 4,638	\$ 4,954	(6.4)%

Consolidated net operating revenues decreased by \$316 million, or 6.4%, in the three months ended June 30, 2022 compared to the same period in 2021, primarily due to the adverse impact of the Cybersecurity Incident and the loss of revenues in our Hospital Operations segment from the Miami Hospitals we sold in August 2021, partially offset by high patient acuity and negotiated commercial rate increases. On a consolidated basis, the decrease in net operating revenues was further offset by higher revenues from our Ambulatory Care segment, which increased \$107 million, or 16.1%, in the 2022 period compared to the 2021 period. This increase was largely driven by our recently acquired ASCs and negotiated commercial rate increases. Conifer’s revenues, net of intercompany eliminations, increased \$27 million, or 13.8%, during the three months ended June 30, 2022 compared to the same period in 2021, primarily due to contractual rate increases and new business expansion. During the three months ended June 30, 2022 and 2021, we recognized net grant income of \$94 million and \$19 million, respectively, which amounts are not included in net operating revenues.

Our accounts receivable days outstanding (“AR Days”) from continuing operations were 59.8 days at June 30, 2022 and 57.0 days at December 31, 2021. The increase was primarily due to revenue recognized in the six months ended June 30, 2022 related to a recently approved Texas Medicaid supplemental funding program, which revenue has not yet been entirely collected. Our AR Days target is less than 55 days. AR Days are calculated as our accounts receivable from continuing operations on the last date in the quarter divided by our net operating revenues from continuing operations for the quarter ended on that date divided by the number of days in the quarter. This calculation includes our Hospital Operations segment’s contract assets. The AR Days calculation excludes (i) urgent care centers operated under the MedPost and CareSpot brands, which we divested in April 2021, (ii) the Miami Hospitals, which we sold in August 2021, and (iii) our California provider fee revenues.

The following table provides information about certain operating expenses by segment on a continuing operations basis:

Selected Operating Expenses	Three Months Ended June 30,		Increase (Decrease)
	2022	2021	
Hospital Operations:			
Salaries, wages and benefits	\$ 1,752	\$ 1,941	(9.7) %
Supplies	605	689	(12.2) %
Other operating expenses	840	901	(6.8) %
Total	\$ 3,197	\$ 3,531	(9.5)%
Ambulatory Care:			
Salaries, wages and benefits	\$ 201	\$ 169	18.9 %
Supplies	205	169	21.3 %
Other operating expenses	100	95	5.3 %
Total	\$ 506	\$ 433	16.9 %
Conifer:			
Salaries, wages and benefits	\$ 173	\$ 170	1.8 %
Supplies	1	1	— %
Other operating expenses	66	58	13.8 %
Total	\$ 240	\$ 229	4.8 %
Total:			
Salaries, wages and benefits	\$ 2,126	\$ 2,280	(6.8) %
Supplies	811	859	(5.6) %
Other operating expenses	1,006	1,054	(4.6) %
Total	\$ 3,943	\$ 4,193	(6.0)%
Rent/lease expense⁽¹⁾:			
Hospital Operations	\$ 68	\$ 75	(9.3) %
Ambulatory Care	28	24	16.7 %
Conifer	3	3	— %
Total	\$ 99	\$ 102	(2.9)%

(1) Included in other operating expenses.

The following table provides information about certain of our Hospital Operations segment's operating expenses per adjusted patient admission on a continuing operations basis:

Selected Operating Expenses per Adjusted Patient Admission	Three Months Ended June 30,		Increase (Decrease)
	2022	2021	
Hospital Operations:			
Salaries, wages and benefits per adjusted patient admission ⁽¹⁾	\$ 7,331	\$ 7,090	3.4 %
Supplies per adjusted patient admission ⁽¹⁾	2,534	2,519	0.6 %
Other operating expenses per adjusted patient admission ⁽¹⁾	3,509	3,289	6.7 %
Total per adjusted patient admission	\$ 13,374	\$ 12,898	3.7 %

⁽¹⁾ Adjusted patient admissions represents actual patient admissions adjusted to include outpatient services provided by facilities in our Hospital Operations segment by multiplying actual patient admissions by the sum of gross inpatient revenues and outpatient revenues and dividing the results by gross inpatient revenues.

Salaries, wages and benefits expense for our Hospital Operations segment decreased \$189 million, or 9.7%, in the three months ended June 30, 2022 compared to the same period in 2021. This change was primarily attributable to the sale of the Miami Hospitals in August 2021, lower incentive compensation and employee benefits costs, and our continued focus on cost-efficiency measures, partially offset by increased overtime expense and annual merit increases for certain of our employees. On a per-adjusted-patient-admission basis, salaries, wages and benefits increased 3.4% in the three months ended June 30, 2022 compared to the three months ended June 30, 2021, primarily due to lower adjusted patient admissions.

Supplies expense for our Hospital Operations segment decreased \$84 million, or 12.2%, during the three months ended June 30, 2022 compared to the three months ended June 30, 2021. This decrease was primarily attributable to the sale of the Miami Hospitals, the decrease in patient volumes during the 2022 period and our cost-efficiency measures, partially offset by increased costs for certain supplies as a result of the COVID-19 pandemic and high patient acuity. On a per-adjusted-patient-admission basis, supplies expense increased 0.6% in the three months ended June 30, 2022 compared to the three months ended June 30, 2021.

Other operating expenses for our Hospital Operations segment decreased \$61 million, or 6.8%, in the three months ended June 30, 2022 compared to the same period in 2021. The decrease was primarily attributable to sale of the Miami Hospitals and our continued focus on cost-efficiency measures. On a per-adjusted-patient-admission basis, other operating expenses in the three months ended June 30, 2022 increased 6.7% compared to the same period in 2021, primarily due to lower adjusted patient admissions and the proportionally higher level of fixed costs (e.g., rent expense) in other operating expenses.

LIQUIDITY AND CAPITAL RESOURCES OVERVIEW

Cash and cash equivalents were \$1.351 billion at June 30, 2022 compared to \$1.405 billion at March 31, 2022.

Significant cash flow items in the three months ended June 30, 2022 included:

- Net cash provided by operating activities before interest, taxes, discontinued operations, and restructuring charges, acquisition-related costs, and litigation costs and settlements of \$543 million (including \$99 million from federal and state grants);
- Proceeds from the sale of facilities and other assets of \$61 million;
- Debt payments of \$1.865 billion, including \$1.826 billion of cash to redeem \$1.769 billion aggregate principal amount outstanding of our 6.750% senior unsecured notes due 2023 (the "2023 Senior Unsecured Notes");
- Proceeds from the issuance of \$2.000 billion aggregate principal amount of our 2030 Senior Secured First Lien Notes;
- Interest payments of \$250 million;
- Income tax payments of \$132 million;
- Capital expenditures of \$152 million;
- \$175 million of distributions paid to noncontrolling interests;

- Payments totaling \$42 million for restructuring charges, acquisition-related costs, and litigation costs and settlements; and
- \$26 million of payments for purchases of businesses or joint venture interests.

Net cash provided by operating activities was \$347 million in the six months ended June 30, 2022 compared to \$779 million in the six months ended June 30, 2021. Key factors contributing to the change between the 2022 and 2021 periods include the following:

- \$475 million of Medicare advances recouped in the six months ended June 30, 2022 compared to \$152 million recouped during the same period in 2021;
- \$104 million of cash received from grants in the six months ended June 30, 2022 compared to \$36 million received in the six months ended June 30, 2021;
- Lower interest payments of \$70 million in 2022 period;
- Higher income tax payments of \$106 million in the 2022 period;
- Decreased cash receipts of \$56 million related to supplemental Medicaid programs in California and Texas; and
- The timing of other working capital items.

FORWARD-LOOKING STATEMENTS

This report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, each as amended. All statements, other than statements of historical or present facts, that address activities, events, outcomes, business strategies and other matters that we plan, expect, intend, assume, believe, budget, predict, forecast, project, target, estimate or anticipate (and other similar expressions) will, should or may occur in the future are forward-looking statements, including (but not limited to) disclosure regarding (i) the impact of the COVID-19 pandemic, (ii) our future earnings, financial position, and operational and strategic initiatives, and (iii) developments in the healthcare industry. Forward-looking statements represent management’s expectations, based on currently available information, as to the outcome and timing of future events, but, by their nature, address matters that are indeterminate. They involve known and unknown risks, uncertainties and other factors, many of which we are unable to predict or control, that may cause our actual results, performance or achievements to be materially different from those expressed or implied by forward-looking statements. Such factors include, but are not limited to, the risks described in the Forward-Looking Statements and Risk Factors sections in Part I of our Annual Report and the Risk Factors section in Part II of our Q1’22 Report.

When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in our Annual Report and in this report. Should one or more of the risks and uncertainties described in these reports occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statement. We specifically disclaim any obligation to update any information contained in a forward-looking statement or any forward-looking statement in its entirety except as required by law.

All forward-looking statements attributable to us are expressly qualified in their entirety by this cautionary information.

SOURCES OF REVENUE FOR OUR HOSPITAL OPERATIONS SEGMENT

We earn revenues for patient services from a variety of sources, primarily managed care payers and the federal Medicare program, as well as state Medicaid programs, indemnity-based health insurance companies and uninsured patients (that is, patients who do not have health insurance and are not covered by some other form of third-party arrangement).

The following table presents the sources of net patient service revenues less implicit price concessions for our hospitals and related outpatient facilities, expressed as percentages of net patient service revenues less implicit price concessions from all sources:

Net Patient Service Revenues Less Implicit Price Concessions from:	Three Months Ended June 30,		Increase (Decrease) ⁽¹⁾	Six Months Ended June 30,		Increase (Decrease) ⁽¹⁾
	2022	2021		2022	2021	
Medicare	17.3 %	18.4 %	(1.1)%	17.5 %	18.6 %	(1.1)%
Medicaid	7.4 %	7.6 %	(0.2)%	6.4 %	7.4 %	(1.0)%
Managed care ⁽²⁾	69.4 %	67.3 %	2.1 %	70.3 %	67.6 %	2.7 %
Uninsured	1.1 %	1.6 %	(0.5)%	1.1 %	1.4 %	(0.3)%
Indemnity and other	4.8 %	5.1 %	(0.3)%	4.7 %	5.0 %	(0.3)%

⁽¹⁾ The change is the difference between the 2022 and 2021 percentages presented.

⁽²⁾ Includes Medicare and Medicaid managed care programs.

Our payer mix on an admissions basis for our hospitals, expressed as a percentage of total admissions from all sources, is presented below:

Admissions from:	Three Months Ended June 30,		Increase (Decrease) ⁽¹⁾	Six Months Ended June 30,		Increase (Decrease) ⁽¹⁾
	2022	2021		2022	2021	
Medicare	20.7 %	20.7 %	— %	21.1 %	21.1 %	— %
Medicaid	5.6 %	5.7 %	(0.1)%	5.6 %	5.7 %	(0.1)%
Managed care ⁽²⁾	65.7 %	64.3 %	1.4 %	65.3 %	64.0 %	1.3 %
Charity and uninsured	5.0 %	6.2 %	(1.2)%	4.8 %	6.1 %	(1.3)%
Indemnity and other	3.0 %	3.1 %	(0.1)%	3.2 %	3.1 %	0.1 %

⁽¹⁾ The change is the difference between the 2022 and 2021 percentages presented.

⁽²⁾ Includes Medicare and Medicaid managed care programs.

GOVERNMENT PROGRAMS

CMS is an agency of the U.S. Department of Health and Human Services (“HHS”) that administers a number of government programs authorized by federal law; it is the single largest payer of healthcare services in the United States. Medicare is a federally funded health insurance program primarily for individuals 65 years of age and older, as well as some younger people with certain disabilities and conditions, and is provided without regard to income or assets. Medicaid is co-administered by the states and is jointly funded by the federal government and state governments. Medicaid is the nation’s main public health insurance program for people with low incomes and is the largest source of health coverage in the United States. The Children’s Health Insurance Program (“CHIP”), which is also co-administered by the states and jointly funded, provides health coverage to children in families with incomes too high to qualify for Medicaid, but too low to afford private coverage. Unlike Medicaid, the CHIP is limited in duration and requires the enactment of reauthorizing legislation. Funding for the CHIP has been reauthorized through federal fiscal year 2027.

Medicare

Medicare offers its beneficiaries different ways to obtain their medical benefits. One option, the Original Medicare Plan (which includes “Part A” and “Part B”), is a fee-for-service (“FFS”) payment system. The other option, called Medicare Advantage (sometimes called “Part C” or “MA Plans”), includes health maintenance organizations (“HMOs”), preferred provider organizations (“PPOs”), private FFS Medicare special needs plans and Medicare medical savings account plans. Our total net patient service revenues from continuing operations of the hospitals and related outpatient facilities in our Hospital Operations segment for services provided to patients enrolled in the Original Medicare Plan were \$579 million and \$697 million for the three months ended June 30, 2022 and 2021, respectively, and \$1.198 billion and \$1.385 billion for the six months ended June 30, 2022 and 2021, respectively.

A general description of the types of payments we receive for services provided to patients enrolled in the Original Medicare Plan is provided in our Annual Report. Recent regulatory and legislative updates to the terms of these payment systems and their estimated effect on our revenues can be found under “Regulatory and Legislative Changes” below.

Medicaid

Medicaid programs and the corresponding reimbursement methodologies vary from state-to-state and from year-to-year. Even prior to the COVID-19 pandemic, several states in which we operate faced budgetary challenges that resulted in reduced Medicaid funding levels to hospitals and other providers. Because most states must operate with balanced budgets, and the Medicaid program is generally a significant portion of a state's budget, states can be expected to adopt or consider adopting future legislation designed to reduce or not increase their Medicaid expenditures. In addition, some states delay issuing Medicaid payments to providers to manage state expenditures. As an alternative means of funding provider payments, many of the states in which we operate have adopted supplemental payment programs authorized under the Social Security Act. Continuing pressure on state budgets and other factors, including legislative and regulatory changes, could result in future reductions to Medicaid payments, payment delays or changes to Medicaid supplemental payment programs. Federal government denials or delayed approvals of waiver applications or extension requests by the states in which we operate could materially impact our Medicaid funding levels.

Estimated revenues under various state Medicaid programs, including state-funded Medicaid managed care programs, constituted approximately 19.2% and 17.3% of total net patient service revenues less implicit price concessions of our acute care hospitals and related outpatient facilities for the six months ended June 30, 2022 and 2021, respectively. We also receive disproportionate share hospital ("DSH") and other supplemental revenues under various state Medicaid programs. For the six months ended June 30, 2022 and 2021, our total Medicaid revenues attributable to DSH and other supplemental revenues were approximately \$292 million and \$392 million, respectively. The decrease between the two six-month periods was primarily attributable to \$77 million of assessments we recognized related to the Texas Comprehensive Hospital Increase Reimbursement Program ("CHIRP") following its approval in 2022. During the six months ended June 30, 2022, we also recognized \$155 million of revenue related to CHIRP that is included in Managed Medicaid revenue rather than the DSH and other supplemental revenues classification due to the structure of the program.

Medicaid revenues attributable to DSH and other supplemental payment programs included the following:

	Six Months Ended June 30,	
	2022	2021
Medicaid DSH	\$ 59	\$ 69
Other Medicaid supplemental payment programs, net	310	323
	369	392
CHIRP assessments	(77)	—
	<u>\$ 292</u>	<u>\$ 392</u>

Total Medicaid and Managed Medicaid net patient service revenues from continuing operations recognized by the hospitals and related outpatient facilities in our Hospital Operations segment for the six months ended June 30, 2022 and 2021 were \$1.315 billion and \$1.287 billion, respectively. During the six months ended June 30, 2022, Medicaid and Managed Medicaid revenues comprised 33% and 67%, respectively, of our Medicaid-related net patient service revenues from continuing operations recognized by the hospitals and related outpatient facilities in our Hospital Operations segment. All Medicaid and Managed Medicaid patient service revenues are presented net of provider taxes or assessments paid by our hospitals, which are reported as an offset reduction to FFS Medicaid revenue.

Because we cannot predict what actions the federal government or the states may take under existing or future legislation and/or regulatory changes to address budget gaps, deficits, Medicaid expansion, provider fee programs or Medicaid Section 1115 waivers, we are unable to assess the effect that any such legislation or regulatory action might have on our business; however, the impact on our future financial position, results of operations or cash flows could be material.

Regulatory and Legislative Changes

Material updates to the information set forth in our Annual Report about the Medicare and Medicaid payment systems, as well as other government programs impacting our business, are provided below.

Proposed Payment and Policy Changes to the Medicare Inpatient Prospective Payment Systems—Section 1886(d) of the Social Security Act requires CMS to update Medicare inpatient FFS payment rates for hospitals reimbursed under the inpatient prospective payment systems (“IPPS”) annually. The updates generally become effective October 1, the beginning of the federal fiscal year (“FFY”). In April 2022, CMS issued proposed changes to the Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals and Fiscal Year 2023 Rates (“Proposed IPPS Rule”). The Proposed IPPS Rule includes the following proposed payment and policy changes:

- A market basket increase of 3.1% for Medicare severity-adjusted diagnosis-related group (“MS-DRG”) operating payments for hospitals reporting specified quality measure data and that are meaningful users of electronic health record technology; CMS also proposed a 0.4% multifactor productivity reduction required by the Affordable Care Act and a 0.5% increase required by the Medicare Access and CHIP Reauthorization Act that together result in a net operating payment update of 3.2% before budget neutrality adjustments;
- Changes to the hospital Value-Based Purchasing (“VBP”) and Hospital-Acquired Condition (“HAC”) programs for FFY 2023 due to the impact of the COVID-19 Public Health Emergency, including the implementation of a special scoring methodology for the VBP program that results in each hospital receiving a value-based incentive payment amount equal to its 2% reduction to the operating standardized amount; and suppression of all measures in the HAC reduction program resulting in no hospitals being penalized for FFY 2023;
- An increase in the cost outlier threshold from \$30,988 to \$43,214;
- A 1.63% net increase in the capital federal MS-DRG rate; and
- Updates to the three factors used to determine the amount and distribution of Medicare uncompensated care disproportionate share hospital (“UC-DSH”) payments.

According to CMS, the combined impact of the proposed payment and policy changes in the Proposed IPPS Rule for operating costs will yield an average 1.4% increase in Medicare operating MS-DRG FFS payments for hospitals in urban areas, and an average 2.3% increase in such payments for proprietary hospitals in FFY 2023. We estimate that all the proposed payment and policy changes affecting operating MS-DRG and UC-DSH payments will result in an estimated 2.3% increase in our annual Medicare FFS IPPS payments, which yields an estimated increase of approximately \$45 million. Because of the uncertainty associated with various factors that may influence our future IPPS payments by individual hospital, including legislative, regulatory or legal actions, admission volumes, length of stay and case mix, as well as potential changes to the Proposed IPPS Rule, we cannot provide any assurances regarding our estimate of the impact of the proposed payment and policy changes.

Proposed Payment and Policy Changes to the Medicare Outpatient Prospective Payment and Ambulatory Surgery Center Payment Systems—In July 2022, CMS released proposed policy changes and payment rates for the Hospital Outpatient Prospective Payment System (“OPPS”) and Ambulatory Surgical Center Payment System for calendar year (“CY”) 2023 (“Proposed OPPS/ASC Rule”). The Proposed OPPS/ASC Rule includes the following proposed payment and policy changes:

- An estimated net increase of 2.7% for the OPPS rates based on an estimated market basket increase of 3.1%, reduced by a multifactor productivity adjustment required by the Affordable Care Act of 0.4%;
- Removal of 10 services from the Inpatient Only List (which is the list of procedures that must be performed on an inpatient basis) after determining such services meet established criteria for removal;
- Establishment of an exemption for rural Sole Community Hospitals from the site-neutral Medicare reduced payment rate for clinic visits furnished in exempt off-campus, provider-based departments and payment for such visits at the full OPPS rate; and
- A 2.7% increase to the Ambulatory Surgical Center payment rates.

In addition, the Proposed OPPS/ASC Rule acknowledges that additional changes would be forthcoming with respect to CMS' 340B program, which allows certain hospitals (i.e., only nonprofit organizations with specific federal designations and/or funding) ("340B Hospitals") to purchase drugs at discounted rates from drug manufacturers ("340B Drugs"). In the CY 2018 final rule regarding OPPS payment and policy changes, CMS reduced the payment for 340B Drugs from the average sales price ("ASP") plus 6% to the ASP minus 22.5% and made a corresponding budget-neutral increase to payments to all hospitals for other drugs and services reimbursed under the OPPS (the "340B Payment Adjustment"). CMS retained the same 340B Payment Adjustment in the final rules regarding OPPS payment and policy changes for CYs 2019 through 2022. Certain hospital associations and hospitals commenced litigation challenging CMS' authority to impose the 340B Payment Adjustment for CYs 2018, 2019 and 2020. Following the initial court decisions and a series of appeals, the U.S. Supreme Court (the "Supreme Court") unanimously ruled in June 2022 that the decision to impose the 340B Payment Adjustment in CYs 2018 and 2019 was unlawful. The case was remanded to the lower courts to determine the appropriate remedy, and it is expected that 340B Hospitals will be permitted to reclaim at least some portion of the 340B payments that were previously withheld. The Proposed OPPS/ASC Rule states that CMS did not have sufficient time to account for the Supreme Court decision in the CY 2023 proposed rates and budget neutrality calculations; however, CMS has indicated that it does anticipate applying the ASP plus 6% for 340B Drugs in the CY 2023 final rule, in lieu of the current payment policy of ASP minus 22.5%. CMS is still evaluating how to apply the Supreme Court ruling to the prior cost years and is seeking comments on potential remedies.

CMS projects that the combined impact of the proposed payment and policy changes in the Proposed OPPS/ASC Rule under the current 340B payment policy (of ASP minus 22.5%) will yield an average 2.9% increase in Medicare FFS OPPS payments for hospitals in urban areas and an average 3.5% increase in Medicare FFS OPPS payments for proprietary hospitals. Based on CMS' estimates under the current 340B payment policy, the projected annual impact of the payment and policy changes in the Proposed OPPS/ASC Rule on our hospitals is an increase to Medicare FFS hospital outpatient revenues of approximately \$21 million, which represents an increase of approximately 3.7%.

However, CMS projects that the combined impact of the proposed payment and policy changes in the Proposed OPPS/ASC Rule under the anticipated final 340B payment policy (of ASP plus 6%) will yield an average 4% increase in Medicare FFS OPPS payments for hospitals in urban areas and an average 0.5% increase in Medicare FFS OPPS payments for proprietary hospitals. Based on CMS' estimates under the anticipated final 340B payment policy, the projected annual impact of the payment and policy changes in the Proposed OPPS/ASC Rule on our hospitals is an increase to Medicare FFS hospital outpatient revenues of approximately \$3 million, which represents an increase of approximately 0.5%.

Because of the uncertainty associated with various factors that may influence our future OPPS payments, including legislative or legal actions, volumes and case mix, as well as potential changes to the proposed rule, we cannot provide any assurances regarding our estimate of the impact of the proposed payment and policy changes. In addition, it remains unclear at this time how CMS will finance any retroactive payments for 340B payments that were previously withheld given that the original policy was budget-neutral and HHS already redistributed the savings. We cannot predict the remedy that will be imposed, the timing thereof, or what further actions CMS or Congress might take with respect to the 340B program; however, it is possible that reversal of the 340B Payment Adjustments could have an adverse effect on our future net operating revenues and cash flows.

Proposed Payment and Policy Changes to the Medicare Physician Fee Schedule—In July 2022, CMS released the CY 2023 Medicare Physician Fee Schedule ("MPFS") Proposed Rule ("MPFS Proposed Rule"). The MPFS Proposed Rule includes updates to payment policies, payment rates and other provisions for services reimbursed under the MPFS from January 1 through December 31, 2023. Under the MPFS Proposed Rule, the CY 2023 conversion factor, which is the base rate that is used to convert relative units into payment rates, would be reduced from \$34.61 to \$33.08, due in part to the expiration of the one-time 3% payment increase provided for in CY 2022 by the Protecting Medicare and American Farmers from Sequester Cuts Act, as well as budget neutrality rules. This change would result in an annual reduction of approximately \$8 million to our FFS MPFS revenues. Because of the uncertainty associated with various factors that may influence our future MPFS payments, including legislative, regulatory or legal actions, volumes and case mix, as well as potential changes to the MPFS Proposed Rule, we cannot provide any assurances regarding our estimate of the impact of the proposed payment and policy changes.

Public Health and Social Services Emergency Fund—During the six months ended June 30, 2022 and 2021, our Hospital Operations and Ambulatory Care segments together recognized a total of \$87 million and \$38 million, respectively, of PRF grant income associated with lost revenues and COVID-related costs. Our Hospital Operations segment also recognized \$13 million and \$12 million of grant income from state and local grant programs during the same six-month periods in 2022 and 2021, respectively. In addition, we recognized \$11 million of grant income through our unconsolidated affiliates during the six months ended June 30, 2021. Grant income recognized by our Hospital Operations and Ambulatory Care segments is presented in grant income, and grant income recognized through our unconsolidated affiliates is presented in equity in earnings of unconsolidated affiliates, in each case in our condensed consolidated statements of operations. We cannot predict whether

additional distributions of grant funds will be authorized, and we cannot provide assurances regarding the amount of grant income, if any, to be recognized in the future.

Medicare and Medicaid Payment Policy Changes—The federally mandated 2% sequestration reduction on Medicare FFS and Medicare Advantage payments to hospitals, physicians and other providers was suspended effective May 1, 2020 through December 31, 2021. The Protecting Medicare and American Farmers from Sequester Cuts Act (the “Sequester Cuts Act”), which was signed into law in December 2021, extended the 2% Medicare sequestration moratorium through March 31, 2022, and adjusted the sequestration to 1% for the period April 1, 2022 through June 30, 2022, after which the full 2% reduction will be restored unless further legislation is passed. The impact of the Sequester Cuts Act on our operations was an increase of approximately \$39 million of revenues in the six months ended June 30, 2022. Because of the uncertainty associated with various factors that may influence our future Medicare and Medicaid payments, including future legislative, legal or regulatory actions, or changes in volumes and case mix, there is a risk that actual payments received under, or the ultimate impact of, these programs will differ materially from our expectations.

PRIVATE INSURANCE

Managed Care

We currently have thousands of managed care contracts with various HMOs and PPOs. HMOs generally maintain a full-service healthcare delivery network comprised of physician, hospital, pharmacy and ancillary service providers that HMO members must access through an assigned “primary care” physician. The member’s care is then managed by his or her primary care physician and other network providers in accordance with the HMO’s quality assurance and utilization review guidelines so that appropriate healthcare can be efficiently delivered in the most cost-effective manner. HMOs typically provide reduced benefits or reimbursement (or none at all) to their members who use non-contracted healthcare providers for non-emergency care.

PPOs generally offer limited benefits to members who use non-contracted healthcare providers. PPO members who use contracted healthcare providers receive a preferred benefit, typically in the form of lower co-pays, co-insurance or deductibles. As employers and employees have demanded more choice, managed care plans have developed hybrid products that combine elements of both HMO and PPO plans, including high-deductible healthcare plans that may have limited benefits, but cost the employee less in premiums.

The amount of our managed care net patient service revenues, including Medicare and Medicaid managed care programs, from our hospitals and related outpatient facilities during the six months ended June 30, 2022 and 2021 was \$4.819 billion and \$5.025 billion, respectively. Our top 10 managed care payers generated 62% of our managed care net patient service revenues for the six months ended June 30, 2022. During the same period, national payers generated 43% of our managed care net patient service revenues; the remainder came from regional or local payers. At both June 30, 2022 and December 31, 2021, 67% of our net accounts receivable for our Hospital Operations segment were due from managed care payers.

Revenues under managed care plans are based primarily on payment terms involving predetermined rates per diagnosis, per-diem rates, discounted FFS 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. We believe it is reasonably likely for there to be an approximately 3% increase or decrease in the estimated contractual allowances related to managed care plans. Based on reserves at June 30, 2022, a 3% increase or decrease in the estimated contractual allowance would impact the estimated reserves by approximately \$16 million. Some of the factors that can contribute to changes in the contractual allowance estimates include: (i) changes in reimbursement levels for procedures, supplies and drugs when threshold levels are triggered; (ii) changes in reimbursement levels when stop-loss or outlier limits are reached; (iii) changes in the admission status of a patient due to physician orders subsequent to initial diagnosis or testing; (iv) final coding of in-house and discharged-not-final-billed patients that change reimbursement levels; (v) secondary benefits determined after primary insurance payments; and (vi) reclassification of patients among insurance plans with different coverage and payment levels. 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 expect managed care governmental admissions to continue to increase as a percentage of total managed care admissions over the near term. However, the managed Medicare and Medicaid insurance plans typically generate lower yields than commercial managed care plans, which have been experiencing an improved pricing trend. Although we have benefited from solid year-over-year aggregate managed care pricing improvements for some time, we have seen these improvements moderate in recent years, and we believe this moderation could continue into the future. In the six months ended June 30, 2022, our commercial managed care net inpatient revenue per admission from the hospitals in our Hospital Operations segment was approximately 81% higher than our aggregate yield on a per-admission basis from government payers, including managed Medicare and Medicaid insurance plans.

Indemnity

An indemnity-based agreement generally requires the insurer to reimburse an insured patient for healthcare expenses after those expenses have been incurred by the patient, subject to policy conditions and exclusions. Unlike an HMO member, a patient with indemnity insurance is free to control his or her utilization of healthcare and selection of healthcare providers.

Legislative Changes

As more fully described in Item 1, Business — Healthcare Regulation and Licensing, of Part I of our Annual Report, the No Surprises Act (“NSA”) and the rules promulgated thereunder went into effect on January 1, 2022. The NSA is intended to address unexpected gaps in insurance coverage that result in “surprise medical bills” when patients unknowingly obtain medical services from physicians and other providers outside their health insurance network, including certain emergency services, anesthesiology services and air ambulance transportation. At this time, we are unable to assess the effect that the NSA or regulations relating to the NSA might have on our business, financial position, results of operations or cash flows.

UNINSURED PATIENTS

Uninsured patients are patients who do not qualify for government programs payments, such as Medicare and Medicaid, do not have some form of private insurance and, therefore, are responsible for their own medical bills. A significant number of our uninsured patients are admitted through our hospitals’ emergency departments and often require high-acuity treatment that is more costly to provide and, therefore, results in higher billings, which are the least collectible of all accounts.

Self-pay accounts receivable, which include amounts due from uninsured patients, as well as co-pays, co-insurance amounts and deductibles owed to us by patients with insurance, pose significant collectability problems. At June 30, 2022 and December 31, 2021, 3% and 4%, respectively, of our net accounts receivable for our Hospital Operations segment was self-pay. Further, a significant portion of our implicit price concessions relates to self-pay amounts. We provide revenue cycle management services through Conifer, which is subject to various statutes and regulations regarding consumer protection in areas including finance, debt collection and credit reporting activities. For additional information, see Item 1, Business — Regulations Affecting Conifer’s Operations, of Part I of our Annual Report.

Conifer has performed systematic analyses to focus our attention on the drivers of bad debt expense for each hospital. While emergency department use is the primary contributor to our implicit price concessions in the aggregate, this is not the case at all hospitals. As a result, we have increased our focus on targeted initiatives that concentrate on non-emergency department patients as well. These initiatives are intended to promote process efficiencies in collecting self-pay accounts, as well as co-pay, co-insurance and deductible amounts owed to us by patients with insurance, that we deem highly collectible. We leverage a statistical-based collections model that aligns our operational capacity to maximize our collections performance. We are dedicated to modifying and refining our processes as needed, enhancing our technology and improving staff training throughout the revenue cycle process in an effort to increase collections and reduce accounts receivable.

Over the longer term, several other initiatives we have previously announced should also help address the challenges associated with serving uninsured patients. For example, our *Compact with Uninsured Patients* (“*Compact*”) is designed to offer managed care-style discounts to certain uninsured patients, which enables us to offer lower rates to those patients who historically had been charged standard gross charges. Under the *Compact*, the discount offered to 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 through implicit price concessions based on historical collection trends for self-pay accounts and other factors that affect the estimation process.

We also provide financial assistance through our charity and uninsured discount programs to uninsured patients who are unable to pay for the healthcare services they receive. Our policy is not to pursue collection of amounts determined to qualify for financial assistance; 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 DSH payments. These payments are intended to mitigate our cost of uncompensated care. Some states have also developed provider fee or other supplemental payment programs to mitigate the shortfall of Medicaid reimbursement compared to the cost of caring for Medicaid patients.

The initial expansion of health insurance coverage under the Affordable Care Act resulted in an increase in the number of patients using our facilities with either health insurance exchange or government healthcare insurance program coverage. However, we continue to have to provide uninsured discounts and charity care due to the failure of certain states to expand Medicaid coverage and for persons living in the country who are not permitted to enroll in a health insurance exchange or government healthcare insurance program.

The following table presents our estimated costs (based on selected operating expenses, which include salaries, wages and benefits, supplies and other operating expenses) of caring for our uninsured and charity patients:

Estimated costs for:	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Uninsured patients	\$ 136	\$ 158	\$ 258	\$ 326
Charity care patients	19	29	40	49
Total	\$ 155	\$ 187	\$ 298	\$ 375

RESULTS OF OPERATIONS

The following tables present our consolidated net operating revenues, operating expenses and operating income, both in dollar amounts and as percentages of net operating revenues, on a continuing operations basis:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net operating revenues:				
Hospital Operations	\$ 3,645	\$ 4,095	\$ 7,443	\$ 8,042
Ambulatory Care	771	664	1,509	1,310
Conifer	333	319	657	629
Inter-segment eliminations	(111)	(124)	(226)	(246)
Net operating revenues	4,638	4,954	9,383	9,735
Grant income	94	19	100	50
Equity in earnings of unconsolidated affiliates	54	54	100	96
Operating expenses:				
Salaries, wages and benefits	2,126	2,280	4,308	4,481
Supplies	811	859	1,596	1,663
Other operating expenses, net	1,006	1,054	1,948	2,126
Depreciation and amortization	216	221	419	445
Impairment and restructuring charges, and acquisition-related costs	57	20	73	40
Litigation and investigation costs	18	22	38	35
Net gains on sales, consolidation and deconsolidation of facilities	(1)	(15)	—	(15)
Operating income	\$ 553	\$ 586	\$ 1,201	\$ 1,106

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net operating revenues	100.0 %	100.0 %	100.0 %	100.0 %
Grant income	2.0 %	0.4 %	1.1 %	0.5 %
Equity in earnings of unconsolidated affiliates	1.2 %	1.1 %	1.1 %	1.0 %
Operating expenses:				
Salaries, wages and benefits	45.8 %	46.0 %	45.9 %	46.0 %
Supplies	17.5 %	17.4 %	17.0 %	17.1 %
Other operating expenses, net	21.7 %	21.3 %	20.8 %	21.8 %
Depreciation and amortization	4.7 %	4.5 %	4.5 %	4.6 %
Impairment and restructuring charges, and acquisition-related costs	1.2 %	0.4 %	0.8 %	0.4 %
Litigation and investigation costs	0.4 %	0.4 %	0.4 %	0.4 %
Net gains on sales, consolidation and deconsolidation of facilities	— %	(0.3) %	— %	(0.2) %
Operating income	11.9 %	11.8 %	12.8 %	11.4 %

The following tables present our net operating revenues, operating expenses and operating income, both in dollar amounts and as percentages of net operating revenues, by operating segment on a continuing operations basis:

	Three Months Ended June 30, 2022			Six Months Ended June 30, 2022		
	Hospital Operations	Ambulatory Care	Conifer	Hospital Operations	Ambulatory Care	Conifer
Net operating revenues	\$ 3,534	\$ 771	\$ 333	\$ 7,217	\$ 1,509	\$ 657
Grant income	92	2	—	96	4	—
Equity in earnings of unconsolidated affiliates	2	52	—	6	94	—
Operating expenses:						
Salaries, wages and benefits	1,752	201	173	3,572	395	341
Supplies	605	205	1	1,188	406	2
Other operating expenses, net	840	100	66	1,614	205	129
Depreciation and amortization	179	28	9	346	55	18
Impairment and restructuring charges, and acquisition-related costs	42	5	10	54	8	11
Litigation and investigation costs	18	—	—	26	—	12
Net gains on sales, consolidation and deconsolidation of facilities	(1)	—	—	—	—	—
Operating income	\$ 193	\$ 286	\$ 74	\$ 519	\$ 538	\$ 144
Net operating revenues	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Grant income	2.6 %	0.3 %	— %	1.3 %	0.3 %	— %
Equity in earnings of unconsolidated affiliates	0.1 %	6.7 %	— %	0.1 %	6.2 %	— %
Operating expenses:						
Salaries, wages and benefits	49.6 %	26.1 %	52.0 %	49.5 %	26.2 %	51.9 %
Supplies	17.1 %	26.6 %	0.3 %	16.5 %	26.9 %	0.3 %
Other operating expenses, net	23.7 %	13.0 %	19.8 %	22.3 %	13.6 %	19.7 %
Depreciation and amortization	5.1 %	3.6 %	2.7 %	4.8 %	3.6 %	2.7 %
Impairment and restructuring charges, and acquisition-related costs	1.2 %	0.6 %	3.0 %	0.7 %	0.5 %	1.7 %
Litigation and investigation costs	0.5 %	— %	— %	0.4 %	— %	1.8 %
Net gains on sales, consolidation and deconsolidation of facilities	— %	— %	— %	— %	— %	— %
Operating income	5.5 %	37.1 %	22.2 %	7.2 %	35.7 %	21.9 %

	Three Months Ended June 30, 2021			Six Months Ended June 30, 2021		
	Hospital Operations	Ambulatory Care	Conifer	Hospital Operations	Ambulatory Care	Conifer
Net operating revenues	\$ 3,971	\$ 664	\$ 319	\$ 7,796	\$ 1,310	\$ 629
Grant income	4	15	—	28	22	—
Equity in earnings of unconsolidated affiliates	5	49	—	9	87	—
Operating expenses:						
Salaries, wages and benefits	1,941	169	170	3,798	343	340
Supplies	689	169	1	1,335	326	2
Other operating expenses, net	901	95	58	1,817	198	111
Depreciation and amortization	188	23	10	378	48	19
Impairment and restructuring charges, and acquisition-related costs	10	4	6	20	8	12
Litigation and investigation costs	19	3	—	28	6	1
Net gains on sales, consolidation and deconsolidation of facilities	(2)	(13)	—	(2)	(13)	—
Operating income	\$ 234	\$ 278	\$ 74	\$ 459	\$ 503	\$ 144
Net operating revenues	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Grant income	0.1 %	2.3 %	— %	0.4 %	1.7 %	— %
Equity in earnings of unconsolidated affiliates	0.1 %	7.4 %	— %	0.1 %	6.6 %	— %
Operating expenses:						
Salaries, wages and benefits	48.9 %	25.5 %	53.3 %	48.7 %	26.2 %	54.1 %
Supplies	17.4 %	25.5 %	0.3 %	17.1 %	24.9 %	0.3 %
Other operating expenses, net	22.6 %	14.2 %	18.2 %	23.3 %	15.0 %	17.6 %
Depreciation and amortization	4.7 %	3.5 %	3.1 %	4.8 %	3.7 %	3.0 %
Impairment and restructuring charges, and acquisition-related costs	0.3 %	0.6 %	1.9 %	0.3 %	0.6 %	1.9 %
Litigation and investigation costs	0.5 %	0.5 %	— %	0.4 %	0.5 %	0.2 %
Net gains on sales, consolidation and deconsolidation of facilities	(0.1) %	(2.0) %	— %	— %	(1.0) %	— %
Operating income	5.9 %	41.9 %	23.2 %	5.9 %	38.4 %	22.9 %

Consolidated net operating revenues decreased by \$316 million and \$352 million, or 6.4% and 3.6%, for the three and six months ended June 30, 2022, respectively, compared to the three and six months ended June 30, 2021, respectively. Hospital Operations net operating revenues net of inter-segment eliminations decreased by \$437 million and \$579 million, or 11.0% and 7.4%, for the three and six months ended June 30, 2022, respectively, compared to the same three and six-month periods in 2021, respectively. These decreases were primarily due to the adverse impact of the Cybersecurity Incident and the loss of revenues in our Hospital Operations segment from the Miami Hospitals we sold in August 2021, partially offset by high patient acuity and negotiated commercial rate increases. Our Hospital Operations segment also recognized grant income from federal and state grants totaling \$92 million and \$96 million during the three and six months ended June 30, 2022, respectively, which is not included in net operating revenues.

Ambulatory Care net operating revenues increased by \$107 million and \$199 million, or 16.1% and 15.2%, for the three and six months ended June 30, 2022, respectively, compared to the three and six months ended June 30, 2021, respectively. The change in 2022 revenues for the three-month period was driven by an increase from acquisitions of \$83 million, as well as an increase in same-facility net operating revenues of \$32 million due primarily to negotiated commercial rate increases. These increases were partially offset by a decrease of \$8 million due primarily to the sale of the Ambulatory Care segment's urgent care centers to a third party in April 2021. The change in 2022 revenues for the six-month period was driven by an increase from acquisitions of \$174 million, as well as an increase in same-facility net operating revenues of \$84 million due primarily to higher surgical patient volumes and negotiated commercial rate increases. These increases were partially offset by a decrease of \$59 million due primarily to the aforementioned sale of urgent care centers and the transfer of imaging centers to the Hospital Operations segment in April 2021. Our Ambulatory Care segment also recognized income from federal grants totaling \$2 million and \$4 million during the three and six months ended June 30, 2022, respectively, which is not included in net operating revenues.

Conifer's net operating revenues increased by \$14 million and \$28 million, or 4.4% and 4.5%, for the three and six months ended June 30, 2022, respectively, compared to the three and six months ended June 30, 2021, respectively. Conifer's revenues from third-party clients, which revenues are not eliminated in consolidation, increased \$27 million and \$48 million, or 13.8% and 12.5%, for the three and six months ended June 30, 2022, respectively, compared to the same three and six-month periods in 2021, respectively. This increase was primarily due to contractual rate increases, new business expansion and the transition of the Miami Hospitals to third-party clients.

The following table presents selected operating expenses of our three operating segments. Information for our Hospital Operations segment is presented on a same-hospital basis, whereas information presented for our Ambulatory Care and Conifer segments is presented on a continuing operations basis.

Selected Operating Expenses	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
Hospital Operations — Same-Hospital:						
Salaries, wages and benefits	\$ 1,741	\$ 1,828	(4.8) %	\$ 3,553	\$ 3,570	(0.5) %
Supplies	603	644	(6.4) %	1,184	1,247	(5.1) %
Other operating expenses	825	820	0.6 %	1,586	1,663	(4.6) %
Total	\$ 3,169	\$ 3,292	(3.7) %	\$ 6,323	\$ 6,480	(2.4) %
Ambulatory Care:						
Salaries, wages and benefits	\$ 201	\$ 169	18.9 %	\$ 395	\$ 343	15.2 %
Supplies	205	169	21.3 %	406	326	24.5 %
Other operating expenses	100	95	5.3 %	205	198	3.5 %
Total	\$ 506	\$ 433	16.9 %	\$ 1,006	\$ 867	16.0 %
Conifer:						
Salaries, wages and benefits	\$ 173	\$ 170	1.8 %	\$ 341	\$ 340	0.3 %
Supplies	1	1	— %	2	2	— %
Other operating expenses	66	58	13.8 %	129	111	16.2 %
Total	\$ 240	\$ 229	4.8 %	\$ 472	\$ 453	4.2 %
Rent/lease expense⁽¹⁾:						
Hospital Operations	\$ 66	\$ 69	(4.3) %	\$ 134	\$ 141	(5.0) %
Ambulatory Care	28	24	16.7 %	55	51	7.8 %
Conifer	3	3	— %	6	6	— %
Total	\$ 97	\$ 96	1.0 %	\$ 195	\$ 198	(1.5) %

(1) Included in other operating expenses.

RESULTS OF OPERATIONS BY SEGMENT

Our operations are reported in three segments:

- Hospital Operations, which is comprised of acute care and specialty hospitals, imaging centers, ancillary outpatient facilities, micro-hospitals and physician practices;
- Ambulatory Care, which is comprised of USPI's ASCs and surgical hospitals; and
- Conifer, which provides revenue cycle management and value-based care services to hospitals, health systems, physician practices, employers and other clients.

Hospital Operations Segment

The following tables present operating statistics, revenues and expenses of our hospitals and related outpatient facilities on a same-hospital basis, unless otherwise indicated:

Admissions, Patient Days and Surgeries	Same-Hospital			Same-Hospital		
	Three Months Ended June 30,		Increase (Decrease)	Six Months Ended June 30,		Increase (Decrease)
	2022	2021		2022	2021	
Number of hospitals (at end of period)	60	60	— (1)	60	60	— (1)
Total admissions	128,068	139,331	(8.1)%	255,850	273,451	(6.4)%
Adjusted patient admissions ⁽²⁾	239,031	252,469	(5.3)%	466,964	483,742	(3.5)%
Paying admissions (excludes charity and uninsured)	121,823	131,813	(7.6)%	243,620	258,818	(5.9)%
Charity and uninsured admissions	6,245	7,518	(16.9)%	12,230	14,633	(16.4)%
Admissions through emergency department	96,136	102,617	(6.3)%	193,820	203,464	(4.7)%
Paying admissions as a percentage of total admissions	95.1 %	94.6 %	0.5 % (1)	95.2 %	94.6 %	0.6 % (1)
Charity and uninsured admissions as a percentage of total admissions	4.9 %	5.4 %	(0.5)% (1)	4.8 %	5.4 %	(0.6)% (1)
Emergency department admissions as a percentage of total admissions	75.1 %	73.6 %	1.5 % (1)	75.8 %	74.4 %	1.4 % (1)
Surgeries — inpatient	33,749	37,363	(9.7)%	66,657	71,459	(6.7)%
Surgeries — outpatient	53,638	57,588	(6.9)%	104,896	107,863	(2.8)%
Total surgeries	87,387	94,951	(8.0)%	171,553	179,322	(4.3)%
Patient days — total	658,995	695,445	(5.2)%	1,364,618	1,426,970	(4.4)%
Adjusted patient days ⁽²⁾	1,192,999	1,234,640	(3.4)%	2,417,823	2,460,160	(1.7)%
Average length of stay (days)	5.15	4.99	3.2 %	5.33	5.22	2.1 %
Licensed beds (at end of period)	15,391	15,399	(0.1)%	15,391	15,399	(0.1)%
Average licensed beds	15,382	15,402	(0.1)%	15,389	15,403	(0.1)%
Utilization of licensed beds ⁽³⁾	47.1 %	49.6 %	(2.5)% (1)	49.0 %	51.2 %	(2.2)% (1)

(1) The change is the difference between the 2022 and 2021 amounts presented.

(2) Adjusted patient admissions/days represents actual patient admissions/days adjusted to include outpatient services provided by facilities in our Hospital Operations segment by multiplying actual patient admissions/days by the sum of gross inpatient revenues and outpatient revenues and dividing the results by gross inpatient revenues.

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

Outpatient Visits	Same-Hospital			Same-Hospital		
	Three Months Ended June 30,		Increase (Decrease)	Six Months Ended June 30,		Increase (Decrease)
	2022	2021		2022	2021	
Total visits	1,281,256	1,424,407	(10.0)%	2,521,642	2,647,103	(4.7)%
Paying visits (excludes charity and uninsured)	1,201,750	1,323,061	(9.2)%	2,367,468	2,470,572	(4.2)%
Charity and uninsured visits	79,506	101,346	(21.5)%	154,174	176,531	(12.7)%
Emergency department visits	541,098	511,030	5.9 %	1,041,763	935,391	11.4 %
Surgery visits	53,638	57,588	(6.9)%	104,896	107,863	(2.8)%
Paying visits as a percentage of total visits	93.8 %	92.9 %	0.9 % (1)	93.9 %	93.3 %	0.6 % (1)
Charity and uninsured visits as a percentage of total visits	6.2 %	7.1 %	(0.9)% (1)	6.1 %	6.7 %	(0.6)% (1)

(1) The change is the difference between the 2022 and 2021 amounts presented.

Revenues	Same-Hospital			Same-Hospital		
	Three Months Ended June 30,		Increase (Decrease)	Six Months Ended June 30,		Increase (Decrease)
	2022	2021		2022	2021	
Total segment net operating revenues ⁽¹⁾	\$ 3,498	\$ 3,690	(5.2)%	\$ 7,150	\$ 7,251	(1.4)%
Selected revenue data – hospitals and related outpatient facilities:						
Net patient service revenues ⁽¹⁾⁽²⁾	\$ 3,314	\$ 3,507	(5.5)%	\$ 6,792	\$ 6,899	(1.6)%
Net patient service revenue per adjusted patient admission ⁽¹⁾⁽²⁾	\$ 13,864	\$ 13,891	(0.2)%	\$ 14,545	\$ 14,262	2.0 %
Net patient service revenue per adjusted patient day ⁽¹⁾⁽²⁾	\$ 2,778	\$ 2,841	(2.2)%	\$ 2,809	\$ 2,804	0.2 %

(1) Revenues are net of implicit price concessions.

(2) Adjusted patient admissions/days represents actual patient admissions/days adjusted to include outpatient services provided by facilities in our Hospital Operations segment by multiplying actual patient admissions/days by the sum of gross inpatient revenues and outpatient revenues and dividing the results by gross inpatient revenues.

Total Segment Selected Operating Expenses	Same-Hospital			Same-Hospital		
	Three Months Ended June 30,		Increase (Decrease) ⁽¹⁾	Six Months Ended June 30,		Increase (Decrease) ⁽¹⁾
	2022	2021		2022	2021	
Salaries, wages and benefits as a percentage of net operating revenues	49.8 %	49.5 %	0.3 %	49.7 %	49.2 %	0.5 %
Supplies as a percentage of net operating revenues	17.2 %	17.5 %	(0.3)%	16.6 %	17.2 %	(0.6)%
Other operating expenses as a percentage of net operating revenues	23.6 %	22.2 %	1.4 %	22.2 %	22.9 %	(0.7)%

(1) The change is the difference between the 2022 and 2021 amounts presented.

Revenues

Same-hospital net operating revenues decreased \$192 million, or 5.2%, during the three months ended June 30, 2022 compared to the three months ended June 30, 2021, due in part to the adverse impact of the Cybersecurity Incident on our patient volumes, partially offset by high patient acuity and negotiated commercial rate increases. Our Hospital Operations segment also recognized grant income totaling \$92 million and \$4 million from federal, state and local grants in the three months ended June 30, 2022 and 2021, respectively, which is not included in net operating revenues. Same-hospital admissions and outpatient visits decreased 8.1% and 10.0%, respectively, in the three months ended June 30, 2022 compared to the same period in 2021, due in part to the impact of the Cybersecurity Incident in April 2022.

Same-hospital net operating revenues decreased \$101 million, or 1.4%, during the six months ended June 30, 2022 compared to the six months ended June 30, 2021, primarily due to the same factors that impacted the three-month period. Our Hospital Operations segment also recognized grant income from federal, state and local grants totaling \$96 million and \$28 million in the six months ended June 30, 2022 and 2021, respectively, which is not included in net operating revenues. Same-hospital admissions decreased 6.4% in the six months ended June 30, 2022 compared to the same period in 2021. This decrease was due in part to the impacts of the Omicron variant in the first quarter of 2022 and the Cybersecurity Incident in the second quarter of 2022. Same-hospital outpatient visits decreased by 4.7% during the 2022 period, due in part to the adverse impact of the Cybersecurity Incident.

The following table presents our consolidated net accounts receivable by payer:

	June 30, 2022	December 31, 2021
Medicare	\$ 141	\$ 155
Medicaid	54	47
Net cost report settlements receivable and valuation allowances	49	33
Managed care	1,682	1,602
Self-pay uninsured	12	21
Self-pay balance after insurance	70	70
Estimated future recoveries	141	137
Other payers	345	331
Total Hospital Operations	2,494	2,396
Ambulatory Care	346	374
Accounts receivable, net	\$ 2,840	\$ 2,770

Collection of accounts receivable has been a key area of focus, particularly over the past several years. At June 30, 2022, our Hospital Operations segment collection rate on self-pay accounts was approximately 28.2%. Our self-pay collection rate includes payments made by patients, including co-pays, co-insurance amounts and deductibles paid by patients with insurance. Based on our accounts receivable from uninsured patients and co-pays, co-insurance amounts and deductibles owed to us by patients with insurance at June 30, 2022, a 10% decrease or increase in our self-pay collection rate, or approximately 3%, which we believe could be a reasonably likely change, would result in an unfavorable or favorable adjustment to patient accounts receivable of approximately \$10 million. 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 and deductibles to be made by patients with insurance, and business practices related to collection efforts. These factors, many of which have been affected by the COVID-19 pandemic, continuously change and can have an impact on collection trends and our estimation process.

We also typically experience ongoing managed care payment delays and disputes; however, we continue to work with these payers to obtain adequate and timely reimbursement for our services. Our estimated Hospital Operations segment collection rate from managed care payers was approximately 96.1% at June 30, 2022.

We manage our implicit price concessions using hospital-specific goals and benchmarks such as (i) total cash collections, (ii) point-of-service cash collections, (iii) AR Days and (iv) accounts receivable by aging category. The following tables present the approximate aging by payer of our net accounts receivable from the continuing operations of our Hospital Operations segment of \$2.445 billion and \$2.363 billion at June 30, 2022 and December 31, 2021, respectively, excluding cost report settlements receivable and valuation allowances of \$49 million and \$33 million, respectively, at June 30, 2022 and December 31, 2021:

	Medicare	Medicaid	Managed Care	Indemnity, Self-Pay and Other	Total
At June 30, 2022:					
0-60 days	91 %	38 %	53 %	21 %	47 %
61-120 days	5 %	27 %	16 %	14 %	16 %
121-180 days	2 %	15 %	10 %	9 %	10 %
Over 180 days	2 %	20 %	21 %	56 %	27 %
Total	100 %	100 %	100 %	100 %	100 %
At December 31, 2021:					
0-60 days	93 %	35 %	57 %	22 %	52 %
61-120 days	4 %	31 %	18 %	14 %	16 %
121-180 days	1 %	14 %	10 %	9 %	9 %
Over 180 days	2 %	20 %	15 %	55 %	23 %
Total	100 %	100 %	100 %	100 %	100 %

Conifer continues to implement revenue cycle initiatives to improve our cash flow. These initiatives are focused on standardizing and improving patient access processes, including pre-registration, registration, verification of eligibility and benefits, liability identification and collections at point-of-service, and financial counseling. These initiatives are intended to reduce denials, improve service levels to patients and increase the quality of accounts that end up in accounts receivable.

Although we continue to focus on improving our methodology for evaluating the collectability of our accounts receivable, we may incur future charges if there are unfavorable changes in the trends affecting the net realizable value of our accounts receivable.

At June 30, 2022, we had a cumulative total of patient account assignments to Conifer of \$1.870 billion related to our continuing operations. These accounts have already been written off and are not included in our receivables; however, an estimate of future recoveries from all the accounts assigned to Conifer is determined based on our historical experience and recorded in accounts receivable.

Patient advocates from Conifer's Eligibility and Enrollment Services program ("EES") screen patients in 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. Receivables from patients who are potentially eligible for Medicaid are classified as Medicaid pending, under the EES, net of appropriate implicit price concessions. Based on recent trends, approximately 97% of all accounts in the EES are ultimately approved for benefits under a government program, such as Medicaid.

The following table presents the approximate amount of accounts receivable in the EES still awaiting determination of eligibility under a government program at June 30, 2022 and December 31, 2021 by aging category:

	June 30, 2022	December 31, 2021
0-60 days	\$ 71	\$ 87
61-120 days	19	17
121-180 days	4	4
Over 180 days	10	7
Total	\$ 104	\$ 115

Salaries, Wages and Benefits

Same-hospital salaries, wages and benefits decreased \$87 million, or 4.8%, in the three months ended June 30, 2022 compared to the same period in 2021. This decrease was primarily attributable to reduced patient volumes and our continued focus on cost-efficiency measures. Lower incentive compensation and employee benefits costs also contributed to the decrease in 2022. These factors were partially offset by increased premium pay and annual merit increases for certain of our employees. Same-hospital salaries, wages and benefits as a percentage of net operating revenues increased by 30 basis points to 49.8% in the three months ended June 30, 2022 compared to the three months ended June 30, 2021, due in part to the adverse impact of the Cybersecurity Incident on our patient revenues during the period. Salaries, wages and benefits expense for the three months ended June 30, 2022 and 2021 included stock-based compensation expense of \$14 million and \$12 million, respectively.

Same-hospital salaries, wages and benefits decreased \$17 million, or 0.5%, in the six months ended June 30, 2022 compared to the same period in 2021. This decrease was primarily attributable to the same factors that caused the decrease in the three-month period, partially offset by increased premium pay, increased contract labor costs and annual merit increases for certain of our employees. Same-hospital salaries, wages and benefits as a percentage of net operating revenues increased by 50 basis points to 49.7% in the six months ended June 30, 2022 compared to the six months ended June 30, 2021, due in part to the adverse impact of the Cybersecurity Incident on our patient revenues during the period. Salaries, wages and benefits expense for the six months ended June 30, 2022 and 2021 included stock-based compensation expense of \$26 million and \$22 million, respectively.

Supplies

Same-hospital supplies expense decreased \$41 million, or 6.4%, in the three months ended June 30, 2022 compared to the same period in 2021. The decrease was primarily due to lower patient volumes and our cost-efficiency measures, including those described below, partially offset by the increased cost of certain supplies as a result of the COVID-19 pandemic and growth in our higher-acuity, supply-intensive surgical services. Same-hospital supplies expense as a percentage of net operating revenues decreased by 30 basis points to 17.2% in the three months ended June 30, 2022 compared to the three months ended June 30, 2021, primarily due to our continued focus on cost-efficiency measures. We strive to control supplies expense through product standardization, consistent contract terms and end-to-end contract management, improved utilization, bulk purchases, focused spending with a smaller number of vendors and operational improvements.

Same-hospital supplies expense decreased \$63 million, or 5.1%, in the six months ended June 30, 2022 compared to the same period in 2021. The decrease was primarily due to the same factors that impacted the three-month period ended June 30, 2022. Same-hospital supplies expense as a percentage of net operating revenues decreased by 60 basis points to 16.6%

in the six months ended June 30, 2022 compared to the six months ended June 30, 2021, primarily due to our continued focus on cost-efficiency measures.

Other Operating Expenses, Net

Same-hospital other operating expenses increased by \$5 million, or 0.6%, in the three months ended June 30, 2022 compared to the same period in 2021. Same-hospital other operating expenses as a percentage of net operating revenues increased by 140 basis points to 23.6% for the three months ended June 30, 2022 compared to 22.2% for the three months ended June 30, 2021, primarily due to the decrease in our patient volumes and the proportionally higher level of fixed costs (e.g., rent expense) in other operating expenses.

Same-hospital other operating expenses decreased by \$77 million, or 4.6%, in the six months ended June 30, 2022 compared to the same period in 2021. The changes in other operating expenses included:

- net gains from the sale of long-lived assets of \$71 million; and
- decreased malpractice expense of \$18 million.

Same-hospital other operating expenses as a percentage of net operating revenues decreased by 70 basis points to 22.2% in the six months ended June 30, 2022 compared to 22.9% for the six months ended June 30, 2021, primarily due to the net gains from the sale of long-lived assets noted above.

Ambulatory Care Segment

Our Ambulatory Care segment is comprised of USPI's ASCs and surgical hospitals. USPI operates its surgical facilities in partnership with local physicians and, in many of these facilities, a health system partner. We hold an ownership interest in each facility, with each being operated through a separate legal entity in most cases. USPI operates facilities on a day-to-day basis through management services contracts. Our sources of earnings from each facility consist of:

- management and administrative services revenues, computed as a percentage of each facility's net revenues (often net of implicit price concessions); and
- our share of each facility's net income (loss), which is computed by multiplying the facility's net income (loss) times the percentage of each facility's equity interests owned by USPI.

Our role as an owner and day-to-day manager provides us with significant influence over the operations of each facility. For many of the facilities our Ambulatory Care segment operates (165 of 434 facilities at June 30, 2022), this influence does not represent control of the facility, so we account for our investment in the facility under the equity method for an unconsolidated affiliate. USPI controls 269 of the facilities our Ambulatory Care segment operates, and we account for these investments as consolidated subsidiaries. Our net earnings from a facility are the same under either method, but the classification of those earnings differs. For consolidated subsidiaries, our financial statements reflect 100% of the revenues and expenses of the subsidiaries, after the elimination of intercompany amounts. The net profit attributable to owners other than USPI is classified within net income available to noncontrolling interests.

For unconsolidated affiliates, our statements of operations reflect our earnings in two line items:

- *equity in earnings of unconsolidated affiliates*—our share of the net income (loss) of each facility, which is based on the facility's net income (loss) and the percentage of the facility's outstanding equity interests owned by USPI; and
- *management and administrative services revenues, which is included in our net operating revenues*—income we earn in exchange for managing the day-to-day operations of each facility, usually quantified as a percentage of each facility's net revenues less implicit price concessions.

Our Ambulatory Care segment operating income is driven by the performance of all facilities USPI operates and by USPI's ownership interests in those facilities, but our individual revenue and expense line items contain only consolidated businesses, which represent 62% of those facilities. This translates to trends in consolidated operating income that often do not correspond with changes in consolidated revenues and expenses, which is why we disclose certain statistical and financial data on a pro forma systemwide basis that includes both consolidated and unconsolidated (equity method) facilities.

Results of Operations

The following table summarizes certain statement of operations items:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
Net operating revenues	\$ 771	\$ 664	16.1 %	\$ 1,509	\$ 1,310	15.2 %
Grant income	\$ 2	\$ 15	(86.7)%	\$ 4	\$ 22	(81.8)%
Equity in earnings of unconsolidated affiliates	\$ 52	\$ 49	6.1 %	\$ 94	\$ 87	8.0 %
Salaries, wages and benefits	\$ 201	\$ 169	18.9 %	\$ 395	\$ 343	15.2 %
Supplies	\$ 205	\$ 169	21.3 %	\$ 406	\$ 326	24.5 %
Other operating expenses, net	\$ 100	\$ 95	5.3 %	\$ 205	\$ 198	3.5 %

Revenues

Ambulatory Care net operating revenues increased by \$107 million, or 16.1%, during the three months ended June 30, 2022 compared to the same period in 2021. The change was driven by an increase from acquisitions of \$83 million, as well as an increase in same-facility net operating revenues of \$32 million due primarily to negotiated commercial rate increases. These increases were partially offset by a decrease of \$8 million due primarily to the sale of the Ambulatory Care segment's urgent care centers to a third party in April 2021. Our Ambulatory Care segment also recognized grant income from federal grants totaling \$2 million and \$15 million during the three months ended June 30, 2022 and 2021, respectively, which is not included in net operating revenues.

Ambulatory Care net operating revenues increased by \$199 million, or 15.2%, during the six months ended June 30, 2022 compared to the same period in 2021. The change was driven by an increase from acquisitions of \$174 million, as well as an increase in same-facility net operating revenues of \$84 million due primarily to higher surgical patient volumes and negotiated commercial rate increases. These increases were partially offset by a decrease of \$59 million due primarily to the aforementioned sale of urgent care centers and the transfer of imaging centers to the Hospital Operations segment. Our Ambulatory Care segment also recognized grant income from federal grants totaling \$4 million and \$22 million during the six months ended June 30, 2022 and 2021, respectively, which is not included in net operating revenues.

Salaries, Wages and Benefits

Salaries, wages and benefits expense increased by \$32 million, or 18.9%, during the three months ended June 30, 2022 compared to the same period in 2021. Salaries, wages and benefits expense was impacted by an increase from acquisitions of \$27 million, as well as an increase in same-facility salaries, wages and benefits expense of \$10 million due primarily to higher surgical patient volumes. These increases were partially offset by a decrease of \$5 million due primarily to the aforementioned sale of urgent care centers. Salaries, wages and benefits expense included \$3 million of stock-based compensation in each of the three-month periods ended June 30, 2022 and 2021.

Salaries, wages and benefits expense increased by \$52 million, or 15.2%, during the six months ended June 30, 2022 compared to the same period in 2021. Salaries, wages and benefits expense was impacted by an increase from acquisitions of \$53 million and an increase in same-facility salaries, wages and benefits expense of \$27 million due primarily to higher surgical patient volumes, partially offset by a decrease of \$28 million due to the aforementioned sale of urgent care centers and the transfer of imaging centers to the Hospital Operations segment. Salaries, wages and benefits expense included \$6 million of stock-based compensation expense in each of the six-month periods ended June 30, 2022 and 2021.

Supplies

Supplies expense increased by \$36 million, or 21.3%, during the three months ended June 30, 2022 compared to the same period in 2021. The change was driven by an increase from acquisitions of \$31 million, as well as an increase in same-facility supplies expense of \$5 million due primarily to additional costs driven by the higher level of patient acuity and higher pricing of certain supplies as a result of the COVID-19 pandemic.

Supplies expense increased by \$80 million, or 24.5%, during the six months ended June 30, 2022 compared to the same period in 2021. The change was driven by an increase from acquisitions of \$63 million, as well as an increase in same-facility supplies expense of \$20 million due primarily to an increase in surgical cases at our consolidated centers, additional costs driven by the higher level of patient acuity, and higher pricing of certain supplies as a result of the COVID-19 pandemic, partially offset by a decrease of \$3 million due to the aforementioned sale of urgent care centers and the transfer of imaging centers to the Hospital Operations segment.

Other Operating Expenses, Net

Other operating expenses increased by \$5 million, or 5.3%, during the three months ended June 30, 2022 compared to the same period in 2021. The change was driven by an increase from acquisitions of \$8 million, partially offset by a decrease in same-facility other operating expenses of \$1 million and a decrease of \$2 million due to the sale of the Ambulatory Care segment's urgent care centers.

Other operating expenses increased by \$7 million, or 3.5%, during the six months ended June 30, 2022 compared to the same period in 2021. The change was driven by an increase from acquisitions of \$20 million and an increase in same-facility other operating expenses of \$4 million, partially offset by a decrease of \$17 million due to the aforementioned sale of urgent care centers and the transfer of imaging centers to the Hospital Operations segment.

Facility Growth

The following table summarizes the year-over-year changes in our same-facility revenue and cases on a pro forma systemwide basis, which includes both consolidated and unconsolidated (equity method) facilities. While we do not record the revenues of unconsolidated facilities, we believe this information is important in understanding the financial performance of our Ambulatory Care segment because these revenues are the basis for calculating our management services revenues and, together with the expenses of our unconsolidated facilities, are the basis for our equity in earnings of unconsolidated affiliates.

Ambulatory Care Facility Growth	Three Months Ended June 30, 2022	Six Months Ended June 30, 2022
Net revenues	2.8 %	5.8 %
Cases	(0.9)%	3.3 %
Net revenue per case	3.7 %	2.5 %

Joint Ventures with Health System Partners

USPI's business model is to jointly own its facilities with local physicians and, in many of these facilities, a not-for-profit health system partner. Accordingly, as of June 30, 2022, the majority of facilities in our Ambulatory Care segment are operated in this model.

The table below summarizes the amounts we paid to acquire various ownership interests in ambulatory care facilities:

	Six Months Ended June 30,		Increase (Decrease)
	2022	2021	
Controlling interests	\$ 66	\$ 63	\$ 3
Noncontrolling interests	—	1	(1)
Equity investment in unconsolidated affiliates and consolidated facilities	14	6	8
Total	\$ 80	\$ 70	\$ 10

The table below provides information about the ownership structure of the facilities operated by our Ambulatory Care segment:

	June 30, 2022
Owned with a health system partner	201
Owned without a health system partner	233
Total	434

The table below reflects the change in the number of facilities operated by our Ambulatory Care segment since December 31, 2021:

	Six Months Ended June 30, 2022
Acquisitions	7
De novo	6
Dispositions/Mergers	(2)
Total increase in number of facilities operated	11

During the six months ended June 30, 2022, we acquired controlling interests in three ASCs located in Florida and one in each of Arizona and New Hampshire. We paid cash totaling \$37 million for these acquisitions, which are jointly owned with physicians. During the same period in 2022, we acquired a noncontrolling interest in one ASC located in each of New Jersey and Texas.

Also during the six months ended June 30, 2022, we acquired controlling interests in nine previously unconsolidated ASCs (including seven SCD Centers), two of which are located in each of Florida and Pennsylvania and one in each of Indiana, Maryland, Michigan, Texas and Wisconsin. We paid an aggregate of \$29 million to acquire controlling interests in these facilities. Following our acquisition of a controlling interest in the Texas ASC, we contributed our ownership interest in it to our subsidiary Texas Health Ventures Group, L.L.C.

We also regularly engage in the purchase of equity interests with respect to our investments in unconsolidated affiliates and consolidated facilities that do not result in a change in control. These transactions are primarily the acquisitions of equity interests in ASCs and the investment of additional cash in facilities that need capital for new acquisitions, new construction or other business growth opportunities. During the six months ended June 30, 2022, we invested approximately \$14 million in such transactions.

Conifer Segment

Revenues

Our Conifer segment generated net operating revenues of \$333 million and \$319 million during the three months ended June 30, 2022 and 2021, respectively, a portion of which was eliminated in consolidation as described in Note 18 to the accompanying Condensed Consolidated Financial Statements. The increase in Conifer's net operating revenues was \$14 million, or 4.4%. Conifer's revenues from third-party clients, which revenues are not eliminated in consolidation, increased \$27 million, or 13.8%, for the three months ended June 30, 2022 compared to the same period in 2021. The increase was primarily attributable to contractual rate increases and new business expansion.

Our Conifer segment generated net operating revenues of \$657 million and \$629 million during the six months ended June 30, 2022 and 2021, respectively. The increase in Conifer's net operating revenues was \$28 million, or 4.5%. Conifer revenues from third-party clients, which revenues are not eliminated in consolidation, increased \$48 million, or 12.5%, for the six months ended June 30, 2022 compared to the same period in 2021. The increase was primarily driven by contractual rate increases and new business expansion, as well as the transition of the five Miami-area hospitals sold in August 2021 to a third-party client.

Salaries, Wages and Benefits

Salaries, wages and benefits expense for Conifer increased \$3 million, or 1.8%, in the three months ended June 30, 2022 compared to the same period in 2021, and increased \$1 million, or 0.3%, in the six months ended June 30, 2022 compared to the same period in 2021. The increase in both periods was primarily due to new business expansion, planned staffing increases and annual merit increases for certain of our employees. Salaries, wages and benefits expense included stock-based compensation expense of \$1 million in each of the three-month periods ended June 30, 2022 and 2021, and \$2 million in each of the six-month periods ended June 30, 2022 and 2021.

Other Operating Expenses, Net

Other operating expenses for Conifer increased \$8 million, or 13.8%, in the three months ended June 30, 2022 compared to the same period in 2021. Other operating expenses for Conifer increased \$18 million, or 16.2%, in the six months ended June 30, 2022 compared to the same period in 2021. The increase in each period was primarily due to higher vendor fees and recruiting expenses in 2022.

Consolidated

Impairment and Restructuring Charges, and Acquisition-Related Costs

The following table presents information about our impairment and restructuring charges, and acquisition-related costs:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Consolidated:				
Impairment charges	\$ 5	\$ 1	\$ 6	\$ 1
Restructuring charges	49	18	61	34
Acquisition-related costs	3	1	6	5
Total impairment and restructuring charges, and acquisition-related costs	\$ 57	\$ 20	\$ 73	\$ 40
By segment:				
Hospital Operations	\$ 42	\$ 10	\$ 54	\$ 20
Ambulatory Care	5	4	8	8
Conifer	10	6	11	12
Total impairment and restructuring charges, and acquisition-related costs	\$ 57	\$ 20	\$ 73	\$ 40

During the three and six months ended June 30, 2022, restructuring charges consisted of \$16 million and \$21 million, respectively, of employee severance costs, \$3 million and \$5 million, respectively, related to the transition of various administrative functions to our GBC, \$21 million and \$22 million, respectively, related to contract and lease termination fees, and \$9 million and \$13 million, respectively, of other restructuring costs. Acquisition-related costs consisted entirely of transaction costs during both periods.

During the three and six months ended June 30, 2021, restructuring charges consisted of \$6 million and \$10 million, respectively, of employee severance costs, \$6 million and \$12 million, respectively, related to the transition of various administrative functions to our GBC, and \$6 million and \$12 million, respectively, of other restructuring costs. Acquisition-related costs consisted entirely of transaction costs during both periods.

Litigation and Investigation Costs

Litigation and investigation costs during the three months ended June 30, 2022 and 2021 were \$18 million and \$22 million, respectively, and \$38 million and \$35 million during the six months ended June 30, 2022 and 2021, respectively.

Interest Expense

Interest expense for the three and six months ended June 30, 2022 was \$222 million and \$449 million, respectively, compared to \$235 million and \$475 million for the same periods in 2021.

Loss from Early Extinguishment of Debt

During the three and six months ended June 30, 2022, we incurred aggregate losses from early extinguishment of debt of \$66 million and \$109 million, respectively. These losses related to the redemption of our 7.500% senior secured first lien notes due 2025 (“2025 Senior Secured First Lien Notes”) in February 2022, open market purchases of our 2023 Senior Unsecured Notes during the six months ended June 30, 2022 and the redemption in full of the 2023 Senior Unsecured Notes in June 2022, in all cases in advance of the notes’ maturity date.

Loss from early extinguishment of debt was \$31 million and \$54 million for the three and six months ended June 30, 2021, respectively. These losses related to our retirement of approximately \$1.888 billion aggregate principal amount of certain of our senior unsecured and senior secured first lien notes in advance of their maturity dates during the six months ended June 30, 2021.

In all of the 2022 and 2021 periods, the losses from early extinguishment of debt primarily related to the difference between the purchase prices and the par value of the notes, as well as the write-off of associated unamortized issuance costs.

Income Tax Expense

During the three months ended June 30, 2022, we recorded income tax expense of \$86 million in continuing operations on pre-tax income of \$265 million compared to \$61 million on pre-tax income of \$319 million during the prior-year period. During the six months ended June 30, 2022, we recorded income tax expense of \$185 million in continuing operations on pre-tax income of \$643 million compared to \$106 million on pre-tax income of \$586 million during the six months ended June 30, 2021. During the six months ended June 30, 2022, we recorded income tax expense of \$77 million to increase the valuation allowance for interest expense carryforwards, including \$39 million due to a change in the business interest expense disallowance rules in 2022.

A reconciliation between the amount of reported income tax expense and the amount computed by multiplying income from continuing operations before income taxes by the statutory federal tax rate is presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Tax expense at statutory federal rate of 21%	\$ 56	\$ 67	\$ 135	\$ 123
State income taxes, net of federal income tax benefit	11	14	25	26
Tax benefit attributable to noncontrolling interests	(28)	(28)	(57)	(53)
Nondeductible goodwill	1	7	1	7
Stock-based compensation tax benefit	(1)	(2)	(3)	(3)
Changes in valuation allowance	45	—	77	—
Other items	2	3	7	6
Income tax expense	\$ 86	\$ 61	\$ 185	\$ 106

Net Income Available to Noncontrolling Interests

Net income available to noncontrolling interests was \$141 million for the three months ended June 30, 2022 compared to \$138 million for the three months ended June 30, 2021. Net income available to noncontrolling interests for the 2022 period was comprised of \$114 million related to our Ambulatory Care segment, \$8 million related to our Hospital Operations segment, and \$19 million related to our Conifer segment. Of the portion related to our Ambulatory Care segment, \$5 million related to the minority interest Baylor held in USPI until June 30, 2022.

Net income available to noncontrolling interests was \$281 million for the six months ended June 30, 2022 compared to \$263 million for the six months ended June 30, 2021. Net income available to noncontrolling interests for the six months ended June 30, 2022 was comprised of \$213 million related to our Ambulatory Care segment, \$33 million related to our Hospital Operations segment and \$35 million related to our Conifer segment. Of the portion related to our Ambulatory Care segment, \$9 million related to the minority interest Baylor held in USPI until June 30, 2022.

ADDITIONAL SUPPLEMENTAL NON-GAAP DISCLOSURES

The financial information provided throughout this report, including our Condensed Consolidated Financial Statements and the notes thereto, has been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). However, we use certain non-GAAP financial measures defined below in communications with investors, analysts, rating agencies, banks and others to assist such parties in understanding the impact of various items on our financial statements, some of which are recurring or involve cash payments. We use this information in our analysis of the performance of our business, excluding items we do not consider relevant to the performance of our continuing operations. In addition, we use these measures to define certain performance targets under our compensation programs.

“Adjusted EBITDA” is a non-GAAP measure we define as net income available (loss attributable) to Tenet Healthcare Corporation common shareholders before (1) the cumulative effect of changes in accounting principle, (2) net loss attributable (income available) to noncontrolling interests, (3) income (loss) from discontinued operations, net of tax, (4) income tax benefit (expense), (5) gain (loss) from early extinguishment of debt, (6) other non-operating income (expense), net, (7) interest expense, (8) litigation and investigation (costs) benefit, net of insurance recoveries, (9) net gains (losses) on sales, consolidation and deconsolidation of facilities, (10) impairment and restructuring charges and acquisition-related costs, (11) depreciation and amortization, and (12) income (loss) from divested and closed businesses (i.e., health plan businesses). Litigation and investigation costs do not include ordinary course of business malpractice and other litigation and related expense.

We believe the foregoing non-GAAP measure is useful to investors and analysts because it presents additional information about our financial performance. Investors, analysts, company management and our board of directors utilize this

non-GAAP measure, in addition to GAAP measures, to track our financial and operating performance and compare that performance to peer companies, which utilize similar non-GAAP measures in their presentations. The human resources committee of our board of directors also uses certain non-GAAP measures to evaluate management's performance for the purpose of determining incentive compensation. We believe that Adjusted EBITDA is a useful measure, in part, because certain investors and analysts use both historical and projected Adjusted EBITDA, in addition to GAAP and other non-GAAP measures, as factors in determining the estimated fair value of shares of our common stock. Company management also regularly reviews the Adjusted EBITDA performance for each operating segment. We do not use Adjusted EBITDA to measure liquidity, but instead to measure operating performance. The non-GAAP Adjusted EBITDA measure we utilize may not be comparable to similarly titled measures reported by other companies. Because this measure excludes many items that are included in our financial statements, it does not provide a complete measure of our operating performance. Accordingly, investors are encouraged to use GAAP measures when evaluating our financial performance.

The following table presents the reconciliation of Adjusted EBITDA to net income available to Tenet Healthcare Corporation common shareholders (the most comparable GAAP term) for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income available to Tenet Healthcare Corporation common shareholders	\$ 38	\$ 119	\$ 178	\$ 216
Less: Net income available to noncontrolling interests	(141)	(138)	(281)	(263)
Income (loss) from discontinued operations, net of tax	—	(1)	1	(1)
Income from continuing operations	179	258	458	480
Income tax expense	(86)	(61)	(185)	(106)
Loss from early extinguishment of debt	(66)	(31)	(109)	(54)
Other non-operating income (expense), net	—	(1)	—	9
Interest expense	(222)	(235)	(449)	(475)
Operating income	553	586	1,201	1,106
Litigation and investigation costs	(18)	(22)	(38)	(35)
Net gains on sales, consolidation and deconsolidation of facilities	1	15	—	15
Impairment and restructuring charges, and acquisition-related costs	(57)	(20)	(73)	(40)
Depreciation and amortization	(216)	(221)	(419)	(445)
Adjusted EBITDA	\$ 843	\$ 834	\$ 1,731	\$ 1,611
Net operating revenues	\$ 4,638	\$ 4,954	\$ 9,383	\$ 9,735
Net income available to Tenet Healthcare Corporation common shareholders as a % of net operating revenues	0.8 %	2.4 %	1.9 %	2.2 %
Adjusted EBITDA as % of net operating revenues (Adjusted EBITDA margin)	18.2 %	16.8 %	18.4 %	16.5 %

LIQUIDITY AND CAPITAL RESOURCES

CASH REQUIREMENTS

There have been no material changes to our obligations to make future cash payments under scheduled contractual obligations, such as debt and lease agreements, and under contingent commitments, such as standby letters of credit and minimum revenue guarantees, as disclosed in our Annual Report, except for the matters set forth below under "Other Contractual Obligations" and the additional lease obligations and the long-term debt transactions disclosed in Notes 1 and 6, respectively, to our accompanying Condensed Consolidated Financial Statements.

Long-Term Debt

At June 30, 2022, using the last 12 months of Adjusted EBITDA, our ratio of total long-term debt, net of cash and cash equivalent balances, to Adjusted EBITDA was 3.81x, or 3.92x if adjusted to include outstanding obligations arising from cash advances received from Medicare pursuant to COVID-19 relief legislation. We anticipate this ratio will fluctuate from quarter to quarter based on earnings performance and other factors, including the use of our Credit Agreement as a source of liquidity and acquisitions that involve the assumption of long-term debt. We seek to manage this ratio and increase the efficiency of our balance sheet by following our business plan and managing our cost structure, including through possible asset divestitures, and

through other changes in our capital structure. As part of our long-term objective to manage our capital structure, we continue to evaluate opportunities to retire, purchase, redeem and refinance outstanding debt subject to prevailing market conditions, our liquidity requirements, operating results, contractual restrictions and other factors. In the year ending December 31, 2023 and beyond, we may also consider share repurchases depending on market conditions and other investment opportunities. Our ability to achieve our leverage and capital structure objectives is subject to numerous risks and uncertainties, many of which are described in the Forward-Looking Statements and Risk Factors sections in Part I of our Annual Report and the Risk Factors section in Part II of our Q1'22 Report.

Interest payments, net of capitalized interest, were \$416 million and \$486 million in the six months ended June 30, 2022 and 2021, respectively.

Other Contractual Obligations

Baylor Put/Call Agreement—As previously discussed in our Annual Report, our put/call agreement (the “Baylor Put/Call Agreement”) with Baylor contained put and call options with respect to the 5% ownership interest Baylor held in USPI. The Baylor Put/Call Agreement gave Baylor the option to annually put up to one-third of its total shares in USPI (the “Baylor Shares”) over a period of three years beginning in 2021. We had the right to call the difference between the number of shares Baylor put each year and the maximum number of shares it could have put.

In each of 2021 and 2022, we notified Baylor of our intention to exercise our call option to purchase 33.3% of the Baylor Shares for that year (66.6% in total). In June 2022, we entered into an agreement with Baylor (the “Share Purchase Agreement”) to complete the purchase of the Baylor Shares we called in 2021 and 2022 and to accelerate the acquisition of the remaining Baylor Shares eligible to be put/called in 2023. Under the terms of the Share Purchase Agreement, we agreed to pay Baylor \$406 million to buy its entire 5% voting ownership interest in USPI. We paid \$11 million upon execution of the Share Purchase Agreement and will make 35 additional non-interest bearing monthly payments of approximately \$11 million beginning in August 2022. At June 30, 2022, we had liabilities of \$124 million recorded in other current liabilities and \$253 million in other long-term liabilities in the accompanying Condensed Consolidated Balance Sheet for the purchase of these shares.

Investment in the SCD Centers—USPI continues to make offers in an ongoing process to acquire a portion of the equity interests in certain of the SCD Centers from the physician owners for consideration of up to approximately \$250 million. During the six months ended June 30, 2022, we made aggregate payments of \$25 million to acquire controlling interests in seven SCD Centers. We cannot reasonably predict how many additional physician owners will accept our offers to acquire a portion of their equity, nor the timing or amount of any remaining payments. We expect to fund these payments using cash on hand.

We have no off-balance sheet arrangements that may have a current or future material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources, except for \$230 million of standby letters of credit outstanding and guarantees at June 30, 2022.

Other Cash Requirements

Our capital expenditures primarily relate to the expansion and renovation of existing facilities (including amounts to comply with applicable laws and regulations), equipment and information systems additions and replacements, introduction of new medical technologies, design and construction of new buildings or hospitals, and various other capital improvements, as well as commitments to make capital expenditures in connection with acquisitions of businesses. Capital expenditures were \$307 million and \$243 million in the six months ended June 30, 2022 and 2021, respectively. We anticipate that our capital expenditures for continuing operations for the year ending December 31, 2022 will total approximately \$725 million to \$775 million, including \$95 million that was accrued as a liability at December 31, 2021.

Income tax payments, net of tax refunds, were \$140 million in the six months ended June 30, 2022 compared to \$34 million in the six months ended June 30, 2021.

SOURCES AND USES OF CASH

Our liquidity for the six months ended June 30, 2022 was primarily derived from net cash provided by operating activities and cash on hand. During the six months ended June 30, 2022, we also received supplemental funds from federal and state grants provided under COVID-19 relief legislation. We had \$1.351 billion of cash and cash equivalents on hand at June 30, 2022 to fund our operations and capital expenditures, and our borrowing availability under our credit facility was \$1.500 billion based on our borrowing base calculation at June 30, 2022.

When operating under normal conditions, our primary source of operating cash is the collection of accounts receivable. As such, our operating cash flow is impacted by levels of cash collections, as well as levels of implicit price concessions, due to shifts in payer mix and other factors. Our Credit Agreement provides additional liquidity to manage fluctuations in operating cash caused by these factors.

Net cash provided by operating activities was \$347 million in the six months ended June 30, 2022 compared to \$779 million in the six months ended June 30, 2021. Key factors contributing to the change between the 2022 and 2021 periods include the following:

- \$475 million of Medicare advances recouped in the six months ended June 30, 2022 compared to \$152 million recouped during the same period in 2021;
- \$104 million of cash received from grants in the six months ended June 30, 2022 compared to \$36 million received in the six months ended June 30, 2021;
- Lower interest payments of \$70 million in 2022 period;
- Higher income tax payments of \$106 million in the 2022 period;
- Decreased cash receipts of \$56 million related to supplemental Medicaid programs in California and Texas; and
- The timing of other working capital items.

We used net cash of \$200 million and \$195 million in investing activities during the six months ended June 30, 2022 and 2021, respectively. This \$5 million additional use of cash between the 2022 and 2021 periods was attributable to an increase in capital expenditures of \$64 million and a \$22 million increase in cash used for purchases of marketable securities. These changes were partially offset by an increase in proceeds from the sale of facilities and other assets of \$85 million, primarily related to the sale of several medical office buildings in the first quarter of 2022.

Net cash used in financing activities was \$1.160 billion for the six months ended June 30, 2022 compared to \$836 million for the six months ended June 30, 2021. Financing activity during the six months ended June 30, 2022 included payments of \$2.744 billion to early retire our long-term debt, including \$1.933 billion paid to redeem all \$1.872 billion of aggregate principal amount outstanding on our 2023 Senior Unsecured Notes and \$730 million paid to redeem all \$700 million aggregate principal amount outstanding of our 2025 Senior Secured First Lien Notes. In addition, distributions to noncontrolling interest holders increased \$98 million, primarily due to the distribution of \$61 million for minority interest holders' portion of the proceeds received from the sale of several medical office buildings. These factors were partially offset by proceeds of \$2.000 billion from the issuance of our 2030 Senior Secured First Lien Notes during the six months ended June 30, 2022.

We record our equity securities and our debt securities classified as available-for-sale at fair market value. The majority of our investments are valued based on quoted market prices or other observable inputs. We have no investments that we expect will be negatively affected by the current economic conditions such that they will materially impact our financial condition, results of operations or cash flows.

DEBT INSTRUMENTS, GUARANTEES AND RELATED COVENANTS

Credit Agreement—At June 30, 2022, our Credit Agreement provided for revolving loans in an aggregate principal amount of up to \$1.500 billion with a \$200 million subfacility for standby letters of credit. In March 2022, we amended the revolving credit facility to, among other things, (i) decrease the previous maximum aggregate revolving credit commitments from \$1.900 billion to \$1.500 billion, subject to borrowing availability, (ii) extend the scheduled maturity date from September 2024 to March 2027, and (iii) replace the London Interbank Offered Rate (LIBOR) with the Term Secured Overnight Financing Rate (“SOFR”) and Daily Simple SOFR (each, as defined in the Credit Agreement) as the reference interest rate. At June 30, 2022, we had no cash borrowings outstanding under the Credit Agreement, and we had less than \$1 million of standby letters of credit outstanding. Based on our eligible receivables, \$1.500 billion was available for borrowing under the Credit Agreement at June 30, 2022. We were in compliance with all covenants and conditions in our Credit Agreement at June 30, 2022.

Letter of Credit Facility—We have a letter of credit facility (as amended to date, the “LC Facility”) that provides for the issuance, from time to time, of standby and documentary letters of credit in an aggregate principal amount of up to \$200 million. The scheduled maturity date of the LC Facility is September 12, 2024. The LC Facility is subject to an effective maximum secured debt covenant of 4.25 to 1.00. At June 30, 2022, we were in compliance with all covenants and conditions in the LC Facility, and we had \$127 million of standby letters of credit outstanding thereunder.

Senior Unsecured Notes and Senior Secured Notes—On June 15, 2022, we issued \$2.000 billion aggregate principal amount of our 2030 Senior Secured First Lien Notes. We will pay interest on the 2030 Senior Secured First Lien Notes semi-annually in arrears on June 15 and December 15 of each year, commencing on December 15, 2022. As further discussed below, we used a portion of the proceeds from the issuance of the 2030 Senior Secured First Lien Notes, after payment of fees and expenses, to finance the redemption of our 2023 Senior Unsecured Notes.

Through a series of open-market transactions during the six months ended June 30, 2022, we repurchased \$124 million aggregate principal amount outstanding of our 2023 Senior Unsecured Notes using cash on hand. Following the issuance of our 2030 Senior Secured First Lien Notes, we used a portion of the proceeds to redeem the then-remaining \$1.748 billion aggregate principal outstanding of the 2023 Senior Unsecured Notes in advance of their maturity date. In total, we paid \$1.933 billion during the six months ended June 30, 2022 to retire our 2023 Senior Unsecured Notes in full and recorded aggregate losses from early extinguishment of debt of \$71 million, primarily related to the difference between the purchase prices and the par value of the notes, as well as the write-off of associated unamortized issuance costs.

On February 23, 2022, we redeemed all \$700 million aggregate principal amount outstanding of our 2025 Senior Secured First Lien Notes in advance of their maturity date. We paid \$730 million from cash on hand to redeem the notes. In connection with the redemption, we recorded a loss from early extinguishment of debt of \$38 million in the six months ended June 30, 2022, primarily related to the difference between the purchase price and the par value of the notes, as well as the write-off of associated unamortized issuance costs.

For additional information regarding our long-term debt, see Note 6 to the accompanying Condensed Consolidated Financial Statements and Note 8 to the Consolidated Financial Statements included in our Annual Report.

LIQUIDITY

We continue to experience negative impacts of the COVID-19 pandemic on our business in varying degrees. During the six months ended June 30, 2022, we were affected by a significant acceleration in COVID-19 cases associated with the Omicron variant and subvariants. Future variants could similarly emerge and cause surges in COVID-19 cases, which may adversely impact the local economies of areas we serve. Any increase in the amount of or deterioration in the collectability of patient accounts receivable could adversely affect our cash flows and results of operations. If general economic conditions deteriorate or remain uncertain for an extended period of time, our liquidity and ability to repay our outstanding debt may be impacted.

We have taken, and continue to take, various actions to increase our liquidity and mitigate the impact of reductions in our patient volumes and changes in our service mix and revenue mix. These actions included the sale and redemption of various senior unsecured notes and senior secured notes, which eliminated any significant debt maturities until July 2024 and will reduce our future annual cash interest expense payments. In addition, we have continued cost-efficiency measures, as well as necessary cost reductions, to substantially offset incremental costs, including temporary staffing and premium pay, as well as higher supply costs for PPE. We have also sought to compensate for the COVID-19 pandemic’s disruption of our patient volumes and service mix by growing our services for which demand has been more resilient, including our higher-acuity service lines. While the length of time that will be required for our patient volumes and mix to return to pre-pandemic levels is unknown, especially demand for lower-acuity services, we believe demand for our higher-acuity service lines will continue to grow. We believe these actions, together with government relief packages, supported our ability to provide essential patient services during the initial uncertainty caused by the COVID-19 pandemic and continue to do so.

From time to time, we expect to engage in additional capital markets, bank credit and other financing activities depending on our needs and financing alternatives available at that time. We believe our existing debt agreements provide flexibility for future secured or unsecured borrowings.

Our cash on hand fluctuates day-to-day throughout the year based on the timing and levels of routine cash receipts and disbursements, including our book overdrafts, and required cash disbursements, such as interest payments and income tax payments, as well as cash disbursements required to respond to the COVID-19 pandemic. These fluctuations result in material intra-quarter net operating and investing uses of cash that have caused, and in the future may cause, us to use our Credit Agreement as a source of liquidity. We believe that existing cash and cash equivalents on hand, borrowing availability under

our Credit Agreement and anticipated future cash provided by our operating activities should be adequate to meet our current cash needs. These sources of liquidity, in combination with any potential future debt incurrence, should also be adequate to finance planned capital expenditures, payments on the current portion of our long-term debt, payments to current and former joint venture partners, including those related to put/call arrangements and our Share Purchase Agreement with Baylor, and other presently known operating needs.

Long-term liquidity for debt service and other purposes will be dependent on the amount of cash provided by operating activities and, subject to favorable market and other conditions, the successful completion of future borrowings and potential refinancings. However, our cash requirements could be materially affected by the use of cash in acquisitions of businesses, repurchases of securities, the exercise of put rights or other exit options by our joint venture partners, and contractual commitments to fund capital expenditures in, or intercompany borrowings to, businesses we own. In addition, liquidity could be adversely affected by a deterioration in our results of operations, including our ability to generate sufficient cash from operations, as well as by the various risks and uncertainties discussed in this section, other sections of this report and in our Annual Report, including any costs associated with legal proceedings and government investigations.

We do not rely on commercial paper or other short-term financing arrangements nor do we enter into repurchase agreements or other short-term financing arrangements not otherwise reported in our balance sheet. In addition, we do not have significant exposure to floating interest rates given that all of our current long-term indebtedness has fixed rates of interest except for borrowings under our Credit Agreement.

CRITICAL ACCOUNTING ESTIMATES

In preparing our Condensed Consolidated Financial Statements in conformity with GAAP, we must use estimates and assumptions that affect the amounts reported in our Condensed Consolidated Financial Statements and 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.

We consider our critical accounting estimates to be those that (i) involve significant judgments and uncertainties, (ii) require estimates that are more difficult for management to determine, and (iii) may produce materially different outcomes under different conditions or when using different assumptions.

Our critical accounting estimates have not changed from the description provided in our Annual Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following table presents information about certain of our market-sensitive financial instruments at June 30, 2022. The fair values were determined based on quoted market prices for the same or similar instruments. The average effective interest rates presented are based on the rate in effect at the end of the reporting period. The effects of unamortized discounts and issue costs are excluded from the table.

	Maturity Date, Years Ending December 31,						Total	Fair Value
	2022	2023	2024	2025	2026	Thereafter		
	(Dollars in Millions)							
Fixed rate long-term debt	\$ 69	\$ 126	\$ 1,462	\$ 53	\$ 2,129	\$ 11,376	\$ 15,215	\$ 13,720
Average effective interest rates	4.4 %	4.8 %	4.7 %	6.2 %	4.9 %	5.5 %	5.3 %	

We have no affiliation with partnerships, trusts or other entities (sometimes referred to as “special-purpose” or “variable-interest” entities) whose purpose is to facilitate off-balance sheet financial transactions or similar arrangements by us. As a result, we have no exposure to the financing, liquidity, market or credit risks associated with such entities. We do not hold or issue derivative instruments for trading purposes and are not a party to any instruments with leverage or prepayment features.

ITEM 4. CONTROLS AND PROCEDURES

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined by Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this report. The evaluation was performed under the supervision and with the participation of management, including our chief executive officer and chief financial officer. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective as of June 30, 2022 to ensure that material information is recorded, processed, summarized and reported by management on a timely basis in order to comply with our disclosure obligations under the Exchange Act and the SEC rules thereunder.

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Because we provide healthcare services in a highly regulated industry, we have been and expect to continue to be party to various lawsuits, claims and regulatory investigations from time to time. For information regarding material legal proceedings in which we are involved, see Note 12 to our accompanying Condensed Consolidated Financial Statements, which is incorporated by reference.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2021 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2022.

ITEM 6. EXHIBITS

Unless otherwise indicated, the following exhibits are filed with this report:

- (4) (a) [Thirty-Ninth Supplemental Indenture, dated as of June 15, 2022, among the Registrant, the guarantors party thereto and The Bank of New York Mellon Trust Company, N.A. relating to 6.125% Senior Secured First Lien Notes due 2030 \(Incorporated by reference to Exhibit 4.2 to Registrant's Current Report on Form 8-K filed June 15, 2022\)](#)
- (10) Material Contracts
 - (a) [Exchange and Registration Rights Agreement, dated as of June 15, 2022, among the Registrant, the guarantors party thereto and Barclays Capital Inc. as representative of the other initial purchasers of the notes named therein \(Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed June 15, 2022\)](#)
 - (b) [Tenet Healthcare 2019 Stock Incentive Plan, as amended by the First Amendment*](#)
- (31) Rule 13a-14(a)/15d-14(a) Certifications
 - (a) [Certification of Saumya Sutaria, M.D., Chief Executive Officer](#)
 - (b) [Certification of Daniel J. Cancelmi, Executive Vice President and Chief Financial Officer](#)
- (32) [Section 1350 Certifications of Saumya Sutaria, M.D., Chief Executive Officer, and Daniel J. Cancelmi, Executive Vice President and Chief Financial Officer](#)
- (101 SCH) Inline XBRL Taxonomy Extension Schema Document
- (101 CAL) Inline XBRL Taxonomy Extension Calculation Linkbase Document
- (101 DEF) Inline XBRL Taxonomy Extension Definition Linkbase Document
- (101 LAB) Inline XBRL Taxonomy Extension Label Linkbase Document
- (101 PRE) Inline XBRL Taxonomy Extension Presentation Linkbase Document
- (101 INS) Inline XBRL Taxonomy Extension Instance Document - the instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document
- (104) Cover page from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2022 formatted in Inline XBRL (included in Exhibit 101)

* Management contract or compensatory plan or arrangement

**TENET HEALTHCARE
2019 STOCK INCENTIVE PLAN
(AS AMENDED BY THE FIRST AMENDMENT THERETO)**

Tenet Healthcare Corporation (the "Company"), a Nevada corporation, hereby establishes and adopts the following Tenet Healthcare 2019 Stock Incentive Plan (as amended from time to time, the "Plan").

1. PURPOSE OF THE PLAN

The purpose of the Plan is to assist the Company and its Subsidiaries in attracting and retaining selected individuals to serve as employees and directors of the Company and its Subsidiaries who are expected to contribute to the Company's success and to achieve financial and strategic objectives which will inure to the benefit of all stockholders of the Company through the additional incentives inherent in the Awards hereunder.

2. DEFINITIONS

- 2.1 "2008 Plan" means the Sixth Amended and Restated Tenet Healthcare 2008 Stock Incentive Plan, as the same may be amended.
- 2.2 "Affiliate" means a corporation or other entity controlled by, controlling or under common control with, the Company, or an entity that is otherwise closely connected to the Company, as determined by the Committee.
- 2.3 "Award" shall mean any Option, Stock Appreciation Right, Restricted Stock Award, Other Share-Based Award, Performance Award or any other right, interest or option relating to Shares or cash granted pursuant to the provisions of the Plan.
- 2.4 "Award Agreement" shall mean any agreement, contract or other instrument or document evidencing any Award hereunder, including through an electronic medium.
- 2.5 "Board" shall mean the board of directors of the Company.
- 2.6 "Cause" shall have the following meaning:
- (a) When used in connection with a Qualifying Termination occurring during a Participant's Protection Period, the same meaning as set forth in Section 2.1(f)(2) of the ESP, with the term "Participant" replacing the term "Covered Executive" as used therein.
 - (b) When used in connection with a Qualifying Termination not occurring during a Participant's Protection Period:
 - (i) For any Participant who is a "Covered Executive" under the ESP, the same meaning as set forth in Section 2.1(f)(1) of the ESP, with the term "Participant" replacing the term "Covered Executive" as used therein.
 - (ii) For any Participant who is not a "Covered Executive" under the ESP, "Cause" shall mean a Participant's:
 - (A) dishonesty;
 - (B) fraud;
 - (C) willful misconduct;
-

- (D) breach of fiduciary duty;
- (E) conflict of interest;
- (F) commission of a felony;
- (G) material failure or refusal to perform his or her job duties in accordance with Company policies;
- (H) a material violation of Company policy that causes harm to the Company or an Affiliate;
- (I) other wrongful conduct of a similar nature and degree; or
- (J) sustained unsatisfactory performance which is not improved after the Participant has been provided with a reasonable opportunity to improve his or her performance in accordance with the Company's standard policies and procedures.

2.7 "Change in Control" shall mean the occurrence of one of the following:

- (a) A "change in the ownership of the Company" which will occur on the date that any one person, or more than one person acting as a group within the meaning of Section 409A of the Code, acquires, directly or indirectly, whether in a single transaction or series of related transactions, ownership of stock in the Company that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of the Company ("*Ownership Control*"). However, if any one person or more than one person acting as a group, has previously acquired ownership of more than fifty percent (50%) of the total fair market value or total voting power of the stock of the Company, the acquisition of additional stock by the same person or persons will not be considered a "change in the ownership of the Company" (or to cause a "change in the effective control of the Company" within the meaning of Section 2.7(b) below). Further, an increase in the effective percentage of stock owned by any one person, or persons acting as a group, as a result of a transaction in which the Company acquires its stock in exchange for cash or property will be treated as an acquisition of stock for purposes of this paragraph; provided, that for purposes of this Section 2.7(a), the following acquisitions of Company stock will not constitute a Change of Control:
 - (i) any acquisition, whether in a single transaction or series of related transactions, by any employee benefit plan (or related trust) sponsored or maintained by the Company or an Affiliate which results in such employee benefit plan obtaining "Ownership Control" of the Company;
 - (ii) any acquisition, whether in a single transaction or series of related transactions, by the Company which results in the Company acquiring stock of the Company representing "Ownership Control"; or
 - (iii) any acquisition, whether in a single transaction or series of related transactions, after which those persons who were owners of the Company's stock immediately before such transaction(s) own more than fifty percent (50%) of the total fair market value or total voting power of the stock of the Company (or if after the consummation of such transaction(s) the Company (or another entity into which the Company is merged into or otherwise combined, such the Company does not survive such transaction(s)) is a direct or indirect subsidiary of another entity which itself is not a subsidiary of an entity, then the more than fifty percent (50%) ownership test shall be applied to the voting securities of such other entity) in substantially the same percentages as their respective ownership of the Company immediately before such transaction(s).

This Section 2.7(a) applies either when there is a transfer of the stock of the Company (or issuance of stock) and stock in the Company remains outstanding after the transaction or when there is a transfer of the stock of the Company (including a merger or similar transaction) and stock in the Company does not remain outstanding after the transaction.

- (b) A “change in the effective control of the Company” which will occur on the date that either (i) or (ii) occurs:
- (i) any one person, or more than one person acting as a group within the meaning of Section 409A of the Code, acquires (taking into consideration any prior acquisitions during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons), directly or indirectly, ownership of stock of the Company possessing thirty-five percent (35%) or more of the total voting power of the stock of the Company (not considering stock owned by such person or group before such twelve (12) month period) (i.e., such person or group must acquire within a twelve (12) month period stock possessing at least thirty-five percent (35%) of the total voting power of the stock of the Company) (“Effective Control”), except for (A) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or an Affiliate which results in such employee benefit plan obtaining “Effective Control” of the Company or (B) any acquisition by the Company. The occurrence of “Effective Control” under this Section 2.7(b)(i) may be nullified by a vote of that number of the members of the Board, that exceeds two-thirds (2/3) of the independent members of the Board, which vote must occur before the time, if any, that a “change in the effective control of the Company” has occurred under Section 2.7(b)(ii) below. In the event of such a supermajority vote, such transaction or series of related transactions shall not be treated as an event constituting “Effective Control.” For avoidance of doubt, the Plan provides that in the event of the occurrence of the acquisition of ownership of stock of the Company that reaches or exceeds the thirty-five percent (35%) ownership threshold described above, if more than two-thirds (2/3) of the independent members of the Board take action to resolve that such an acquisition is not a “change in the effective control of the Company” and a majority of the members of the Board have not been replaced as provided under Section 2.7(b)(ii) below, then such Board action shall be final and no “Effective Control” shall be deemed to have occurred for any purpose under the Plan
 - (ii) a majority of the members of the Board are replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of the appointment or election.

For purposes of a “change in the effective control of the Company,” if any one person, or more than one person acting as a group, is considered to effectively control the Company within the meaning of this Section 2.7(b), the acquisition of additional control of the Company by the same person or persons is not considered a “change in the effective control of the Company,” or to cause a “change in the ownership of the Company” within the meaning of Section 2.7(a) above.

- (c) A sale, exchange, lease, disposition or other transfer of all or substantially all of the assets of the Company.
 - (d) A liquidation or dissolution of the Company that is approved by a majority of the Company’s stockholders.
- 2.8 “Code” shall mean the Internal Revenue Code of 1986, as amended from time to time, and any successor statute and the regulations promulgated thereunder, as it or they may be amended from time to time.
- 2.9 “Committee” shall mean the Human Resources Committee of the Board or a subcommittee thereof formed by the Human Resources Committee to act as the Committee hereunder. The Committee shall consist of no fewer than two Directors, each of whom is (i) a “Non- Employee Director” within the meaning of Rule 16b-3 of the Exchange Act and (ii) an “independent director” for purpose of the rules and regulations of the New York Stock Exchange (or such other principal securities exchange on which the Shares are traded).
- 2.10 “Director” shall mean a non-employee member of the Board.

- 2.11 “*Effective Date*” has the meaning specified in Section 13.14.
- 2.12 “*Employee*” shall mean any employee of the Company or any Subsidiary and any prospective employee conditioned upon, and effective not earlier than, such person becoming an employee of the Company or any Subsidiary.
- 2.13 “*ESP*” shall mean the Tenet Executive Severance Plan, as amended or restated from time to time.
- 2.14 “*Exchange Act*” shall mean the Securities Exchange Act of 1934, as amended.
- 2.15 “*Executive Officer*” shall mean an officer of the Company within the meaning of the rules under Section 16 of the Exchange Act.
- 2.16 “*Fair Market Value*” shall mean, unless otherwise determined by the Committee from time to time, the per Share closing price of the Shares as reported on the New York Stock Exchange as of the relevant date (or if there were no reported prices on such date, on the last preceding date on which the prices were reported) or, if the Company is not then listed on the New York Stock Exchange, on such other principal securities exchange on which the Shares are traded, and if the Company is not listed on the New York Stock Exchange or any other securities exchange, the Fair Market Value of Shares shall be determined by the Committee in its sole discretion.
- 2.17 “*Good Reason*” shall have the following meaning:
- (a) When used in connection with a Qualifying Termination occurring during a Participant’s Protection Period, the same meaning as set forth in Section 2.1(x)(2) of the ESP.
 - (b) When used in connection with a Qualifying Termination not occurring during a Participant’s Protection Period, for any Participant who is a “Covered Executive” under the ESP, the same meaning as set forth in Section 2.1(x)(1) of the ESP. For the avoidance of doubt, a Participant who is not a “Covered Executive” under the ESP shall not be eligible to claim “Good Reason” hereunder with regard to any termination of employment occurring outside a Participant’s Protection Period.
 - (c) For purposes of this Section 2.17, references to “Employer” in the ESP with respect to any Participant means the Company or an Affiliate employing such Participant and references to “Covered Executive” in the ESP mean the Participant.
- 2.18 “*Option*” shall mean any right granted to a Participant under the Plan allowing such Participant to purchase Shares at such price or prices and during such period or periods as the Committee shall determine.
- 2.19 “*Other Share-Based Award*” shall have the meaning set forth in Section 8.1.
- 2.20 “*Participant*” shall mean an Employee or Director who is selected by the Committee to receive an Award under the Plan.
- 2.21 “*Payee*” shall have the meaning set forth in Section 13.3.
- 2.22 “*Performance Award*” shall mean any Award of Performance Cash or Performance Share Units granted pursuant to Article 9.
- 2.23 “*Performance Cash*” shall mean any cash incentives granted pursuant to Article 9 which will be paid to the Participant upon the achievement of such Performance Criteria as the Committee shall establish.

- 2.24 “*Performance Criteria*” shall have the meaning set forth in Section 10.1.
- 2.25 “*Performance Period*” shall mean the period established by the Committee during which any Performance Criteria specified by the Committee with respect to an Award are to be measured.
- 2.26 “*Performance Share Unit*” shall mean any grant pursuant to Article 9 of a unit valued by reference to a designated number of Shares, which value will be paid to the Participant upon achievement of such Performance Criteria as the Committee shall establish.
- 2.27 “*Permitted Assignee*” shall have the meaning set forth in Section 12.3.
- 2.28 “*Plan Administrator*” shall mean the individual or committee appointed by the Committee to handle the day-to-day administration of the Plan. If the Committee does not appoint an individual or committee to serve as the Plan Administrator, the Committee will be the Plan Administrator.
- 2.29 “*Protection Period*” shall mean:
- (a) with respect to a Participant who is not a “Covered Executive” under the ESP, the period beginning on the date of a Change in Control and ending twenty-four (24) months following the occurrence of the Change in Control; and
 - (b) with respect to a Participant who is a “Covered Executive” under the ESP, the same period as set forth in the ESP, and as it may be amended from time to time.
- 2.30 “*Qualifying Termination*” means a Participant’s “separation from service” (within the meaning of Section 409A of the Code) by reason of:
- (a) the involuntary termination of a Participant’s employment by the Company (or Subsidiary) without Cause, or
 - (b) the Participant’s resignation from the employment of the Company (or Subsidiary) for Good Reason;
- provided, however, that a Qualifying Termination will not occur by reason of the divestiture of a Subsidiary or an Affiliate with respect to a Participant employed by such Subsidiary or Affiliate who is offered a comparable position with the purchaser and either declines or accepts such position (regardless of whether the Participant accepts such position).
- 2.31 “*Restricted Stock*” shall mean any Share issued with the restriction that the holder may not sell, transfer, pledge or assign such Share and with such other restrictions as the Committee, in its sole discretion, may impose (including any restriction on the right to vote such Share and the right to receive any dividends), which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.
- 2.32 “*Restricted Stock Award*” shall have the meaning set forth in Section 7.1.
- 2.33 “*Restricted Stock Unit*” means an Award that is valued by reference to a Share, which value may be paid to the Participant by delivery, as the Committee shall determine, of cash, Shares, or any combination thereof, and that has such restrictions as the Committee, in its sole discretion, may impose, including without limitation, any restriction on the right to retain such Awards, to sell, transfer, pledge or assign such Awards, which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.
- 2.34 “*Restricted Stock Unit Award*” shall have the meaning set forth in Section 7.1.

- 2.35 “Shares” shall mean the shares of common stock of the Company, par value \$0.05 per share. If there has been an adjustment pursuant to Section 12.2, the term “Shares” shall also include any shares of stock or other securities that are substituted for the common stock of the Company or into which the common stock is adjusted pursuant to Section 12.2.
- 2.36 “Stock Appreciation Right” shall mean the right granted to a Participant pursuant to Article 6.
- 2.37 “Subsidiary” shall mean any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the relevant time each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.
- 2.38 “Substitute Awards” shall mean Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, in each case by a company acquired by the Company or any Affiliate or with which the Company or any Affiliate combines.
- 2.39 “Vesting Period” shall have the meaning set forth in Section 7.1.

3. SHARES SUBJECT TO THE PLAN

3.1 Number of Shares.

- (a) Subject to any adjustments provided for in Section 12.2 and the permitted addbacks provided for in Section 3.1(b), the aggregate number of Shares authorized for issuance under the Plan shall be equal to the sum of (i) 8,275,000 Shares, plus (ii) the number of Shares remaining available under the 2008 Plan as of the Effective Date, plus (iii) any Shares subject to outstanding awards under the 2008 Plan that on or after the Effective Date are forfeited, are cancelled, expire, or are settled in cash. Any Shares that are subject to Awards of Options or Stock Appreciation Rights shall be counted against this limit as one (1) Share for every one (1) Share issued and any Shares that are subject to Awards other than Options or Stock Appreciation Rights shall be counted against this limit as 1.65 Shares for every one (1) Share issued. Similarly, any Shares that again become available for Awards under the Plan pursuant to Section 3.1(a)(iii) or Section 3.1(b) shall be added to this limit as (i) one (1) Share for every one (1) Share subject to Options or Stock Appreciation Rights granted under the Plan or options or stock appreciation rights granted under any Prior Plan, and (ii) as 1.65 Shares for every one (1) Share subject to Awards other than Options or Stock Appreciation Rights granted under the Plan or awards other than options or stock appreciation rights granted under the 2008 Plan.
- (b) If (i) any Shares subject to an Award are forfeited, cancelled or expire or (ii) an Award is settled for cash (in whole or in part), the Shares subject to such Award shall, to the extent of such forfeiture, cancellation, expiration or cash settlement, remain available for issuance under the Plan. In the event that withholding tax liabilities arising from an Award *other than* an Option or Stock Appreciation Right or, after the Effective Date, an award *other than* an option or stock appreciation right under the 2008 Plan are satisfied by the tendering of Shares (either actually or by attestation) or by the withholding of Shares by the Company, the Shares so tendered or withheld shall be added to the Shares available for Awards under the Plan; provided, however, that Shares that again become available for issuance under the Plan pursuant to the preceding clause shall not increase the numbers of shares that may be granted under the Plan in connection with “incentive stock options” under Section 5.7.
- (c) Notwithstanding anything to the contrary contained herein, the following Shares shall be counted against the limit set forth in Section 3.1(a) and shall not be available for issuance under paragraph (a) of this Section: (A) Shares tendered by the Participant or withheld by the Company in payment of the purchase price of an Option, (B) Shares tendered by the Participant or withheld by the Company to satisfy any tax withholding obligation with respect to an Option or Stock Appreciation Right, (C) Shares subject to a Stock Appreciation Right that are not issued in connection with the stock settlement of the Stock Appreciation Right on exercise thereof, and (D) Shares reacquired by the Company on the open market or otherwise using cash proceeds from the exercise of Options.

- (d) Substitute Awards shall not reduce the Shares authorized for issuance under the Plan. Additionally, in the event that a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines has shares available under a pre-existing plan approved by stockholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the Shares authorized for issuance under the Plan; provided that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not Employees or Directors prior to such acquisition or combination.
- (e) No Award may be granted if the number of Shares to be delivered in connection with such Award exceeds the number of Shares remaining available for issuance under this Plan minus the number of Shares issuable in settlement of or related to then-outstanding Awards. The Committee may adopt reasonable counting procedures to ensure appropriate counting, avoid double counting and make adjustments if the number of Shares actually issued differs from the number of Shares previously counted in connection with an Award.

3.2 *Character of Shares.* Any Shares issued hereunder may consist, in whole or in part, of authorized and unissued shares, treasury shares or shares purchased in the open market or otherwise.

4. ELIGIBILITY AND ADMINISTRATION

4.1 *Eligibility.* Any Employee or Director shall be eligible to be selected by the Committee as a Participant.

4.2 *Administration.*

- (a) The Plan shall be administered by the Committee. The Committee shall have full power and authority, subject to the provisions of the Plan and subject to such orders or resolutions not inconsistent with the provisions of the Plan as may from time to time be adopted by the Board, to: (i) select the Employees and Directors to whom Awards may from time to time be granted hereunder; (ii) determine the type or types of Awards, not inconsistent with the provisions of the Plan, to be granted to each Participant hereunder; (iii) determine the number of Shares to be covered by each Award granted hereunder; (iv) determine the terms and conditions, not inconsistent with the provisions of the Plan, of any Award granted hereunder; (v) determine whether, to what extent and under what circumstances, Awards may be settled in cash, Shares or other property; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other property and other amounts payable with respect to an Award made under the Plan shall be deferred either automatically or at the election of the Participant; (vii) determine whether, to what extent and under what circumstances any Award shall be accelerated, canceled or suspended; (viii) interpret and administer the Plan and any instrument or agreement entered into under or in connection with the Plan, including any Award Agreement; (ix) correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent that the Committee shall deem desirable to carry it into effect; (x) establish such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; (xi) determine whether any Award will have the right to dividends; provided, that any such dividend with respect to any Award that has not yet vested shall be subject to the same vesting restrictions as the underlying Award; and (xii) make any other determination and take any other action that the Committee deems necessary or desirable for administration of the Plan. Notwithstanding the foregoing, the determination of the Directors to whom Awards may be granted, the time(s) at which Awards may be granted to Directors and the number of Shares subject to Awards to Directors (within the limitations set forth in Section 10.3 below) shall be made by the Board.
- (b) Decisions of the Committee shall be final, conclusive and binding on all persons or entities, including the Company, any Participant, and any Subsidiary.

- (c) To the extent not inconsistent with applicable law, the rules and regulations of the New York Stock Exchange (or such other principal securities exchange on which the Shares are traded), the Committee may delegate to one or more Executive Officers or a committee of Executive Officers the right to grant Awards to Employees who are not Directors or Executive Officers of the Company, the authority to take action on behalf of the Committee pursuant to the Plan to cancel or suspend Awards to Employees who are not Directors or Executive Officers of the Company and the authority to take any of the other actions described in Section 4.2(a).
- (d) The Committee may appoint the Plan Administrator, who will have the responsibility and duty to administer the Plan on a daily basis. The Committee may remove the Plan Administrator with or without cause at any time. The Plan Administrator will have all the day-to-day responsibilities of administering the Plan but for those duties retained by the Committee as set forth above in Section 4.2(c) and not otherwise delegated to such Plan Administrator.

4.3 *Treatment of Dividends and Dividend Equivalents on Unvested Awards.* Notwithstanding any other provision of the Plan to the contrary, with respect to any Award that provides for or includes a right to dividends or dividend equivalents, if dividends are declared during the period that an equity Award is outstanding, such dividends (or dividend equivalents) shall either (i) not be paid or credited with respect to such Award or (ii) be accumulated but remain subject to vesting requirement(s) to the same extent as the applicable Award and shall only be paid at the time or times such vesting requirement(s) are satisfied.

5. OPTIONS

5.1 *Grant of Options.* Options may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan. Any Option shall be subject to the terms and conditions of this Article and to such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall deem desirable.

5.2 *Award Agreements.* All Options granted pursuant to this Article shall be evidenced by a written Award Agreement in such form and containing such terms and conditions as the Committee shall determine which are not inconsistent with

the provisions of the Plan. The terms of Options need not be the same with respect to each Participant. Granting an Option pursuant to the Plan shall impose no obligation on the recipient to exercise such Option. Any individual who is granted an Option pursuant to this Article may hold more than one Option granted pursuant to the Plan at the same time.

5.3 *Option Price.* Other than in connection with Substitute Awards, the option price per each Share purchasable under any Option granted pursuant to this Article shall not be less than 100% of the Fair Market Value of one Share on the date of grant of such Option. Other than pursuant to Section 12.2, the Committee shall not without the approval of the Company's stockholders (a) lower the option price per Share of an Option after it is granted, (b) cancel an Option that is out-of-the money in exchange for cash or another Award, (c) cancel an Option in exchange for another Option with a lower option price, or (d) take any other action with respect to an Option that would be treated as a repricing under the rules and regulations of the principal securities exchange on which the Shares are traded.

5.4 *Option Term.* The term of each Option shall be fixed by the Committee in its sole discretion; provided that no Option shall be exercisable after the expiration of ten (10) years from the date the Option is granted, except in the event of death or disability (as defined under Company policies).

5.5 *Exercise of Options.*

- (a) Vested Options granted under the Plan shall be exercised by the Participant or by a Permitted Assignee thereof (or by the Participant's executors, administrators, guardian or legal representative, as may be provided in an Award Agreement or in this Plan) as to all or part of the Shares covered thereby, by giving notice of exercise to the Company or its designated agent, specifying the number of Shares to be purchased. The notice of exercise shall be in such form, made in such manner, and in compliance with such other requirements consistent with the provisions of the Plan as the Committee may prescribe from time to time.
- (b) Unless otherwise provided in an Award Agreement, if an Employee voluntarily resigns his employment with the Company or a Subsidiary, then any vested and exercisable Options will remain exercisable for ninety (90) days thereafter unless by their terms they expire sooner. During said period, such Options may be exercised in accordance with their terms.
- (c) Unless otherwise provided in an Award Agreement, full payment of such purchase price shall be made at the time of exercise and shall be made (i) in cash or cash equivalents (including certified check or bank check or wire transfer of immediately available funds), (ii) by tendering previously acquired Shares (either actually or by attestation, valued at their then Fair Market Value), (iii) with the consent of the Committee, by delivery of other consideration (including, where permitted by law and the Committee, other Awards) having a Fair Market Value on the exercise date equal to the total purchase price, (iv) with the consent of the Committee, by withholding Shares otherwise issuable in connection with the exercise of the Option, (v) through any other method specified in an Award Agreement (including same-day sales through a broker except by Executive Officers), or (vi) any combination of any of the foregoing. The notice of exercise, accompanied by such payment, shall be delivered to the Company at its principal business office or such other office as the Committee may from time to time direct, and shall be in such form, containing such further provisions consistent with the provisions of the Plan, as the Committee may from time to time prescribe. In no event may any Option granted hereunder be exercised for a fraction of a Share. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date of actual issuance of the underlying Shares.

5.6 *Form of Settlement.* In its sole discretion, the Committee may provide that the Shares to be issued upon an Option's exercise shall be in the form of Restricted Stock or other similar securities.

5.7 *Incentive Stock Options.* The Committee may grant Options intended to qualify as "incentive stock options" as defined in Section 422 of the Code, to any employee of the Company or any Subsidiary, subject to the requirements of Section 422 of the Code. Solely for purposes of determining whether Shares are available for the grant of "incentive stock options" under the Plan, the maximum aggregate number of Shares that may be issued pursuant to "incentive stock options" granted under the Plan shall be 8,275,000, subject to adjustments provided for in Section 12.2. Incentive stock options shall not be granted more than ten (10) years after the earlier of the adoption of this Plan or the approval of this Plan by the Company's stockholders. In addition, the Fair Market Value of Shares subject to an incentive stock option and the aggregate Fair Market Value of Shares of any parent corporation or subsidiary corporation (within the meaning of Sections 424(e) and (f) of the Code) subject to any other incentive stock option (within the meaning of Section 422 of the Code) of the Company or a parent corporation or a subsidiary corporation (within the meaning of Sections 424(e) and (f) of the Code) that first becomes purchasable by a Participant in any calendar year may not (with respect to that Participant) exceed \$100,000, or such other amount as may be prescribed under Section 422 of the Code. As used in the previous sentence, Fair Market Value shall be determined as of the date the incentive stock options are granted. Failure to comply with this provision shall not impair the enforceability or exercisability of any Option, but shall cause the excess amount of shares to be reclassified in accordance with the Code.

6. STOCK APPRECIATION RIGHTS

6.1 *Grant and Exercise.* The Committee may grant Stock Appreciation Rights (a) in conjunction with all or part of any Option granted under the Plan or at any subsequent time during the term of such Option, (b) in conjunction with all or part of any Award (other than an Option) granted under the Plan or at any subsequent time during the term of such Award, or (c) without regard to any Option or other Award in each case upon such terms and conditions as the Committee may establish in its sole discretion.

6.2 *Terms and Conditions.* Stock Appreciation Rights shall be subject to such terms and conditions, not inconsistent with the provisions of the Plan, as shall be determined from time to time by the Committee, including the following:

- (a) Upon the exercise of a Stock Appreciation Right, the holder shall have the right to receive the excess of (i) the Fair Market Value of one Share on the date of exercise (or such amount less than such Fair Market Value as the Committee shall so determine at any time during a specified period before the date of exercise) over (ii) the grant price of the Stock Appreciation Right on the date of grant, which, except in the case of Substitute Awards or in connection with an adjustment provided for in Section 12.2, shall not be less than the Fair Market Value of one Share on such date of grant of the Stock Appreciation Right.
- (b) The Committee shall determine in its sole discretion whether payment of a Stock Appreciation Right shall be made in cash, in whole Shares, or any combination thereof. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date of actual issuance of the underlying Shares.
- (c) The provisions of Stock Appreciation Rights need not be the same with respect to each recipient.
- (d) The Committee may impose such other conditions or restrictions on the terms of exercise and the grant price of any Stock Appreciation Right, as it shall deem appropriate. A Stock Appreciation Right shall have (i) a grant price not less than Fair Market Value on the date of grant (subject to the requirements of Section 409A of the Code with respect to a Stock Appreciation Right granted in conjunction with, but subsequent to, an Option), and (ii) a term not greater than ten (10) years except in the event of death or disability (as defined under Company policies).
- (e) Without the approval of the Company's stockholders, other than pursuant to Section 12.2, the Committee shall not (i) reduce the grant price of any Stock Appreciation Right after the date of grant, (ii) cancel any Stock Appreciation Right that is out-of-the-money in exchange for cash or another Award, (iii) cancel any Stock Appreciation Right in exchange for another Stock Appreciation Right with a lower grant price, or (iv) take any other action with respect to a Stock Appreciation Right that would be treated as a repricing under the rules and regulations of the principal securities market on which the Shares are traded.
- (f) The Committee may impose such other terms and conditions on Stock Appreciation Rights granted in conjunction with any Award as the Committee shall determine in its sole discretion.

7. RESTRICTED STOCK AND RESTRICTED STOCK UNITS

- 7.1 *Grants.* Awards of Restricted Stock and of Restricted Stock Units may be issued hereunder to Participants either alone or in addition to other Awards granted under the Plan (a "Restricted Stock Award" or "Restricted Stock Unit Award" respectively), and such Restricted Stock Awards and Restricted Stock Unit Awards shall also be available as a form of payment of Performance Awards and other earned cash-based incentive compensation. A Restricted Stock Award or Restricted Stock Unit Award shall be subject to vesting restrictions imposed by the Committee covering a period of time specified by the Committee (the "Vesting Period"). The Committee has absolute discretion to determine whether any consideration (other than services) is to be received by the Company or any Subsidiary as a condition precedent to the issuance of Restricted Stock or Restricted Stock Units.
- 7.2 *Award Agreements.* The terms of any Restricted Stock Award or Restricted Stock Unit Award granted under the Plan shall be set forth in a written Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan. The terms of Restricted Stock Awards and Restricted Stock Unit Awards need not be the same with respect to each Participant.
- 7.3 *Rights of Holders of Restricted Stock and Restricted Stock Units.* Unless otherwise provided in the Award Agreement, beginning on the date of grant of the Restricted Stock Award and subject to acceptance of the Award Agreement, the Participant shall become a stockholder of the Company with respect to all Shares subject to the Award Agreement and shall have all of the rights of a stockholder, including the right to vote such Shares and the right to receive distributions made with respect to such Shares. A Participant receiving a Restricted Stock Unit Award shall not possess voting rights with respect to such Award. Any Shares or any other property distributed as a dividend with respect to any Restricted Stock Award or Restricted Stock Unit Award as to which the restrictions have not yet lapsed shall be subject to the same restrictions as such Restricted Stock Award or Restricted Stock Unit Award.

- 7.4 *Issuance of Shares.* Any Restricted Stock granted under the Plan may be evidenced in such manner as the Committee may deem appropriate, including book-entry registration or issuance of a stock certificate or certificates, which certificate or certificates shall be held by the Company. Such certificate or certificates shall be registered in the name of the Participant and shall bear an appropriate legend referring to the restrictions applicable to such Restricted Stock.

8. OTHER SHARE-BASED AWARDS

- 8.1 *Grants.* Other Awards of Shares and other Awards that are valued by reference to, or are otherwise based on, Shares (“Other Share-Based Awards”) may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan. Other Share-Based Awards shall also be available as a form of payment of other Awards granted under the Plan and other earned cash-based compensation.
- 8.2 *Award Agreements.* The terms of Other Share-Based Award granted under the Plan shall be set forth in a written Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan. The terms of such Awards need not be the same with respect to each Participant.
- 8.3 *Payment.* Except as may be provided in an Award Agreement, Other Share-Based Awards may be paid in cash, Shares, or any combination thereof, as determined in the sole discretion of the Committee. Other Share-Based Awards may be paid in a lump sum or in installments or, in accordance with procedures established by the Committee, on a deferred basis subject to the requirements of Section 409A of the Code.

9. PERFORMANCE AWARDS

- 9.1 *Grants.* Performance Awards in the form of Performance Cash or Performance Share Units, as determined by the Committee in its sole discretion, may be granted hereunder to Participants, for no consideration or for such minimum consideration as may be required by applicable law, either alone or in addition to other Awards granted under the Plan. The Performance Criteria to be achieved for each Performance Period shall be conclusively determined by the Committee and may be based upon the criteria set forth in Section 10.1.
- 9.2 *Award Agreements.* The terms of any Performance Award granted under the Plan shall be set forth in a written Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan. The terms of Performance Awards need not be the same with respect to each Participant.
- 9.3 *Terms and Conditions.* The Performance Criteria to be achieved during any Performance Period and the length of the Performance Period shall be determined by the Committee upon the grant of each Performance Award. The amount of the Award to be distributed shall be conclusively determined by the Committee.
- 9.4 *Payment.* Except as provided in Article 11 or as may be provided in an Award Agreement, Performance Awards will be settled only after the end of the relevant Performance Period. Performance Awards may be paid in cash, Shares, or any combination thereof in the sole discretion of the Committee. Performance Awards may be paid in a lump sum or in installments following the close of the Performance Period or, in accordance with procedures established by the Committee, on a deferred basis subject to the requirements of Section 409A of the Code.

10. PERFORMANCE CRITERIA

- 10.1 *Performance Criteria.* The Committee may determine that the lapsing of restrictions with respect to an Award, and the distribution of cash, Shares or other property pursuant thereto, as applicable, shall be subject to the achievement of one or more performance goals established by the Committee, which shall be based on the attainment of specified levels of one or any combination of performance objectives and criteria, each as may be calculated or measured in the manner determined by the Committee (the “Performance Criteria”). Such Performance Criteria may include (without limitation):

- (a) Basic or diluted earnings per Share;
- (b) Cash flow;
- (c) Economic value added;
- (d) Income, which may include, without limitation, net income, operating income, volume measures (e.g., admissions or visits) and expense control measures, and which may be calculated or measured before or after income taxes, including or excluding interest, depreciation and amortization, minority interests, extraordinary items and other material non-recurring items, discontinued operations, the cumulative effect of changes in accounting policies and the effects of any tax law changes;
- (e) Quality of service and/or patient care, including, without limitation, patient, physician and/or employee satisfaction objectives;
- (f) Business performance or return measures (consisting of market share, debt reduction, return on assets, capital, equity, or sales);
- (g) The price of the Company's common or preferred stock (including, but not limited to, growth measures and total shareholder return); or
- (h) Any other criterion that the Committee may determine, in its sole discretion, is appropriate.

Such Performance Criteria may be determined on an absolute or relative basis, may be based solely by reference to the Company's performance or the performance of an Affiliate, division, business segment or business unit of the Company, or based upon the relative performance of other companies or indices or upon comparisons of any of the indicators of performance relative to other companies or indices. In the event of (i) a change in corporate capitalization, a corporate transaction or a complete or partial corporate liquidation, (ii) a natural disaster or other significant unforeseen event that materially impacts the operation of the Company, (iii) any extraordinary, unusual or non-recurring gain or loss or other event, (iv) any material change in tax laws or accounting policies or practices affecting the Company and/or the Performance Criteria, or (v) any other event(s) or item(s) determined by the Committee, the Committee may make adjustments to the Performance Criteria so as to neutralize the effect of the event on the applicable Award.

- 10.2 *Settlement and Adjustments of Awards Subject to Performance Criteria.* The Committee shall, at the end of the applicable Performance Period, determine whether the applicable Performance Criteria were satisfied and the amount payable with respect to any Award. The Committee may, in its discretion, adjust the amount otherwise payable pursuant to such Award after considering such factors as it deems relevant.
- 10.3 *Limitations on Director Awards.* The aggregate dollar value of equity-based (based on the grant date Fair Market Value of equity-based Awards) granted under this Plan during a calendar year to a Director, taken together with any cash fees paid during such calendar year to such Director, in respect of the Director's service as a member of the Board during such year (including service as a member or chair of any committees of the Board), shall not exceed \$650,000; provided, however, that in any calendar year in which a Director serves as Chairman of the Board or Lead Director, the maximum aggregate dollar value of equity-based and cash compensation provided to the Director may be up to \$850,000.

11. CHANGE IN CONTROL PROVISIONS

11.1 *Impact on Certain Awards.* Award Agreements may provide that in the event of a Change in Control of the Company: (a) Options and Stock Appreciation Rights outstanding as of the date of the Change in Control shall be cancelled and terminated without payment therefor if the Fair Market Value of one Share as of the date of the Change in Control is less than the per Share Option exercise price or Stock Appreciation Right grant price, and (b) all Performance Awards shall be considered to be earned and payable (either in full or pro rata based on the portion of Performance Period completed as of the date of the Change in Control and either based on achievement of target or actual performance during such period), and any limitations or other restriction shall lapse and such Performance Awards shall be immediately settled or distributed.

11.2 Assumption or Substitution of Certain Awards.

- (a) Unless otherwise provided in an Award Agreement or the ESP, with respect to a Participant who is a “Covered Executive” under the ESP, in the event of a Change in Control of the Company in which the successor company assumes or substitutes for an Award, if a Participant incurs a Qualifying Termination with such successor company (or a subsidiary thereof) within the Protection Period (or such other period set forth in the Award Agreement, including a period prior thereto if applicable) and under the circumstances specified in the Award Agreement, then the following shall occur: (i) Options and Stock Appreciation Rights outstanding as of the date of such termination of employment will immediately vest (*i.e.*, immediately vest on the termination date), become fully exercisable, and may thereafter be exercised for twenty-four (24) months (or the period of time set forth in the Award Agreement), but in any event no later than the date of the expiration of the term of such Award, (ii) restrictions, limitations and other conditions applicable to Restricted Stock and Restricted Stock Units shall lapse and the Restricted Stock and Restricted Stock Units shall become free of all restrictions, limitations and conditions and become fully vested on the termination date, and (iii) the restrictions, limitations and other conditions applicable to any Other Share-Based Awards or any other Awards shall lapse, and such Other Share-Based Awards or such other Awards shall become free of all restrictions, limitations and conditions and become fully vested and transferable, to the full extent of the original grant, on the termination date. For the purposes of this Section 11.2, an Award shall be considered assumed or substituted for if following the Change in Control the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash or other securities or property) received in the transaction constituting a Change in Control by holders of Shares for each Share held on the effective date of such transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares); provided, however, that if such consideration received in the transaction constituting a Change in Control is not solely common stock of the successor company, the Committee may, with the consent of the successor company, provide that the consideration to be received upon the exercise or vesting of an Award, for each Share subject thereto, will be solely common stock of the successor company substantially equal in fair market value to the per share consideration received by holders of Shares in the transaction constituting a Change in Control. The determination of such substantial equality of value of consideration shall be made by the Committee in its sole discretion and its determination shall be conclusive and binding.
- (b) Unless otherwise provided in an Award Agreement or the ESP, with respect to a Participant who is a “Covered Executive” under the ESP, in the event of a Change in Control of the Company to the extent the successor company does not assume or substitute for an Award: (i) those Options and Stock Appreciation Rights outstanding as of the date of the Change in Control that are not assumed or substituted for shall immediately vest and become fully exercisable as of the date of the Change in Control, (ii) restrictions, limitations and other conditions on Restricted Stock and Restricted Stock Units that are not assumed or substituted for shall lapse and the Restricted Stock and Restricted Stock Units shall become free of all restrictions, limitations and conditions and become fully vested as of the date of the Change in Control, and (iii) the restrictions, limitations and other conditions applicable to any Other Share-Based Awards or any other Awards that are not assumed or substituted for shall lapse, and such Other Share-Based Awards or such other Awards shall become free of all restrictions, limitations and conditions and become fully vested and transferable, to the full extent of the original grant, as of the date of the Change in Control.

- (c) The Committee, in its discretion, may determine that, upon the occurrence of a Change in Control of the Company, each Option and Stock Appreciation Right outstanding shall terminate within a specified number of days after notice to the Participant, and/or that each Participant shall receive, with respect to each Share subject to such Option or Stock Appreciation Right, an amount equal to the excess of the Fair Market Value of such Share immediately prior to the occurrence of such Change in Control over the exercise price per share of such Option and/or Stock Appreciation Right; such amount to be payable in cash, in one or more kinds of stock or property (including the stock or property, if any, payable in the transaction) or in a combination thereof, as the Committee, in its discretion, shall determine.

12. GENERALLY APPLICABLE PROVISIONS

- 12.1 *Amendment and Termination of the Plan.* The Committee may, from time to time, alter, amend, suspend or terminate the Plan as it shall deem advisable, subject to any requirement for stockholder approval imposed by applicable law, including the rules and regulations of the principal securities market on which the Shares are traded; provided that the Committee may not amend the Plan in any manner that would result in noncompliance with Rule 16b-3 of the Exchange Act; and further provided that the Committee may not, without the approval of the Company's stockholders, amend the Plan to (a) increase the number of Shares that may be the subject of Awards under the Plan (except for adjustments pursuant to Section 12.2), (b) expand the types of awards available under the Plan, (c) materially expand the class of persons eligible to participate in the Plan, (d) amend any provision of Section 5.3 or Section 6.2(e) (regarding changes in the exercise price of Options and Stock Appreciation Rights), (e) increase the maximum permissible term of any Option specified by Section 5.4 or the maximum permissible term of a Stock Appreciation Right specified by Section 6.2(d), or (f) increase the limitations set forth in Section 10.3. In addition, no amendments to, or termination of, the Plan shall impair in any material respect the rights of a Participant under any Award previously granted without such Participant's consent except as required to comply with applicable law, including in order to comply with or ensure exemption from Section 409A of the Code.
- 12.2 *Adjustments.* In the event of any merger, reorganization, consolidation, recapitalization, dividend or distribution (whether in cash, shares or other property, other than a regular cash dividend), stock split, reverse stock split, spin-off or similar transaction or other change in corporate structure affecting the Shares or the value thereof, such adjustments and other substitutions shall be made to the Plan and to Awards as the Committee deems equitable or appropriate taking into consideration the accounting and tax consequences, including such adjustments in the aggregate number, class and kind of securities that may be delivered under the Plan, the maximum number of Shares that may be issued as incentive stock options, in the number, class, kind and option or exercise price of securities subject to outstanding Awards granted under the Plan (including, if the Committee deems appropriate, the substitution of similar options to purchase the shares of, or other awards denominated in the shares of, another company) and the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto), as the Committee may determine to be appropriate; provided, however, that the number of Shares subject to any Award shall always be a whole number.
- 12.3 *Transferability of Awards.* Except as provided below, no Award and no Shares subject to Awards that have not been issued or as to which any applicable restriction, performance or deferral period has not lapsed, may be sold, assigned, transferred, pledged or otherwise encumbered, other than by will or the laws of descent and distribution, and such Award may be exercised during the life of the Participant only by the Participant or the Participant's guardian or legal representative. To the extent and under such terms and conditions as determined by the Committee, a Participant may assign or transfer an Award (each transferee thereof, a "Permitted Assignee") to (i) the Participant's spouse, children or grandchildren (including any adopted and step children or grandchildren), parents, grandparents or siblings, (ii) to a trust for the benefit of one or more of the Participant or the persons referred to in clause (i), (iii) to a partnership, limited liability company or corporation in which the Participant or the persons referred to in clause (i) are the only partners, members or shareholders, (iv) for charitable donations or (v) pursuant to a domestic relations order entered or approved by a court of competent jurisdiction; provided that such Permitted Assignee shall be bound by and subject to all of the terms and conditions of the Plan and the Award Agreement relating to the transferred Award and shall execute an agreement satisfactory to the Company evidencing such obligations; and provided further that such Participant shall remain bound by the terms and conditions of the Plan. The Company shall cooperate with any Permitted Assignee and the Company's transfer agent in effectuating any transfer permitted by the Committee under this Section. For the avoidance of doubt, in no event will any Award be transferrable by a Participant in exchange for value.

- 12.4 *Termination of Employment.* Subject to Article 11, the Committee shall determine and set forth in each Award Agreement whether the Award subject to such Award Agreement will (i) in the case of Options or Stock Appreciation Rights, continue to be or become exercisable and, if so, the terms of exercise, and (ii) in the case of Awards other than Options and Stock Appreciation Rights, cease to be subject to any applicable restrictions, limitations and other conditions, and if so, the timing of the removal of such restrictions, limitations and conditions, after the date that a Participant ceases to be employed by or to provide services to the Company or any Subsidiary (including as a Director), whether by reason of death, disability, voluntary or involuntary termination of employment or services, or otherwise. The date of termination of a Participant's employment or services will be determined by the Committee, which determination will be final.
- 12.5 *Deferral.* The Committee shall be authorized to establish procedures pursuant to which the payment of any Award may be deferred. Such procedures may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments or the grant or crediting of other amounts in respect of deferred payments denominated in Shares. Any deferral shall only be allowed as is provided in a separate deferred compensation plan adopted by the Company.

13. MISCELLANEOUS

- 13.1 *Award Agreements.* Each Award Agreement shall either be (a) in writing in a form approved by the Committee and executed by the Company by an officer duly authorized to act on its behalf, or (b) an electronic notice in a form approved by the Committee and recorded by the Company (or its designee) in an electronic recordkeeping system used for the purpose of tracking one or more types of Awards as the Committee may provide; in each case and if required by the Committee, the Award Agreement shall be executed or otherwise electronically accepted by the recipient of the Award in such form and manner as the Committee may require. The Committee may authorize any officer of the Company to execute any or all Award Agreements on behalf of the Company. The Award Agreement shall set forth the material terms and conditions of the Award as established by the Committee consistent with the provisions of the Plan.
- 13.2 *Other Benefit Plans.* In the event that a provision of any other plan or benefit program of the Employer is more favorable to a Participant with respect to the treatment of any Award upon termination of employment or in connection with a Change in Control than the provisions contained in this Plan or an applicable Award Agreement, the provisions of such other plan or benefit program will control.
- 13.3 *Tax Withholding.* The Company shall have the right to make all payments or distributions pursuant to the Plan to a Participant (or a Permitted Assignee thereof) (any such person, a "Payee") net of any applicable federal, state and local taxes required to be paid or withheld as a result of (a) the grant of any Award, (b) the exercise of an Option or Stock Appreciation Right, (c) the delivery of Shares or cash, (d) the lapse of any restrictions in connection with any Award or (e) any other event occurring pursuant to the Plan. The Company or any Subsidiary shall have the right to withhold from wages or other amounts otherwise payable to such Payee such withholding taxes as may be required by law, or to otherwise require the Payee to pay such withholding taxes. If the Payee shall fail to make such tax payments as are required, the Company or its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to such Payee or to take such other action as may be necessary to satisfy such withholding obligations. The Committee shall be authorized to establish procedures for election by Participants to satisfy such obligation for the payment of such taxes by tendering previously acquired Shares (either actually or by attestation, valued at their then Fair Market Value), or by directing the Company to retain Shares (up to the Participant's maximum tax withholding rate or such other rate that will not trigger a negative accounting impact and is otherwise permitted under applicable withholding rules promulgated by the Internal Revenue Service or another applicable governmental entity) otherwise deliverable in connection with the Award.
- 13.4 *Right of Discharge Reserved; Claims to Awards.* Nothing in the Plan nor the grant of an Award hereunder shall confer upon any Employee or Director the right to continue in the employment or service of the Company or any Subsidiary or affect any right that the Company or any Subsidiary may have to terminate the employment or service of (or to demote or to exclude from future Awards under the Plan) any such Employee or Director at any time for any reason. Except as specifically provided by the Committee, the Company shall not be liable for the loss of existing or potential profit from an Award granted in the event of termination of an employment or other relationship. No Employee or Participant shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Employees or Participants under the Plan.

- 13.5 *Substitute Awards.* Notwithstanding any other provision of the Plan, the terms of Substitute Awards may vary from the terms set forth in the Plan to the extent the Committee deems appropriate to conform, in whole or in part, to the provisions of the awards in substitution for which they are granted.
- 13.6 *Cancellation of Award.* Notwithstanding anything to the contrary contained herein, an Award Agreement may provide that the Award shall be canceled if the Participant, without the consent of the Company, while employed by the Company or any Subsidiary or after termination of such employment or service, establishes a relationship with a competitor of the Company or any Subsidiary or engages in activity that is in conflict with or adverse to the interest of the Company or any Subsidiary, as determined by the Committee in its sole discretion. The Committee may also provide in an Award Agreement that if within the time period specified in the Agreement the Participant establishes a relationship with a competitor or engages in an activity referred to in the preceding sentence, the Participant will forfeit any gain realized on the vesting or exercise of the Award and must repay such gain to the Company.
- 13.7 *Stop-Transfer Orders.* All certificates for Shares delivered under the Plan pursuant to any Award shall be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Shares are then listed, and any applicable federal or state securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.
- 13.8 *Nature of Payments.* All Awards made pursuant to the Plan are in consideration of services performed or to be performed for the Company or any Subsidiary, division or business unit of the Company. Any income or gain realized pursuant to Awards under the Plan constitute a special incentive payment to the Participant and shall not be taken into account, to the extent permissible under applicable law, as compensation for purposes of any of the employee benefit plans of the Company or any Subsidiary except as may be determined by the Committee or by the Board or board of directors of the applicable Subsidiary.
- 13.9 *Other Plans.* Nothing contained in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.
- 13.10 *Severability.* If any provision of the Plan shall be held unlawful or otherwise invalid or unenforceable in whole or in part by a court of competent jurisdiction, such provision shall (a) be deemed limited to the extent that such court of competent jurisdiction deems it lawful, valid and/or enforceable and as so limited shall remain in full force and effect, and (b) not affect any other provision of the Plan or part thereof, each of which shall remain in full force and effect. If the making of any payment or the provision of any other benefit required under the Plan shall be held unlawful or otherwise invalid or unenforceable by a court of competent jurisdiction, such unlawfulness, invalidity or unenforceability shall not prevent any other payment or benefit from being made or provided under the Plan, and if the making of any payment in full or the provision of any other benefit required under the Plan in full would be unlawful or otherwise invalid or unenforceable, then such unlawfulness, invalidity or unenforceability shall not prevent such payment or benefit from being made or provided in part, to the extent that it would not be unlawful, invalid or unenforceable, and the maximum payment or benefit that would not be unlawful, invalid or unenforceable shall be made or provided under the Plan.
- 13.11 *Construction.* As used in the Plan, the words "include" and "including," and variations thereof, shall not be deemed to be terms of limitation, but rather shall be deemed to be followed by the words "without limitation."
- 13.12 *Unfunded Status of the Plan.* The Plan is intended to constitute an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver the Shares or payments in lieu of or with respect to Awards hereunder; provided, however, that the existence of such trusts or other arrangements is consistent with the unfunded status of the Plan. This Plan shall not constitute an "employee benefit plan" for purposes of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended.

- 13.13 *Governing Law.* The Plan and all determinations made and actions taken thereunder, to the extent not otherwise governed by the Code or the laws of the United States, shall be governed by the laws of the State of Nevada, without reference to principles of conflict of laws, and construed accordingly.
- 13.14 *Effective Date of Plan; Termination of Plan.* The Plan was adopted by the Board on March 18, 2019, subject to approval of the holders of the shares entitled to vote at a duly constituted meeting of the stockholders of the Company (such stockholder approval date being referred to herein as the "Effective Date" of the Plan). This Plan shall be null and void and of no effect if the foregoing condition is not fulfilled. Awards may be granted under the Plan at any time and from time to time on or prior to March 18, 2029, on which date the Plan will expire except as to Awards then outstanding under the Plan. Such outstanding Awards shall remain in effect until they have been exercised or terminated, or have expired.
- 13.15 *Foreign Employees.* With respect to Participants who reside or work outside the United States of America, the Committee may, in its sole discretion, amend the terms of the Plan or Awards with respect to such Participants in order to conform such terms with the provisions of local law, and the Committee may, where appropriate, establish one or more sub-plans to reflect such amended or varied provisions. The Committee also may impose conditions on the exercise or vesting of Awards in order to minimize the Company's obligation with respect to tax equalization for Employees on assignments outside their home country.
- 13.16 *Compliance with Section 409A of the Code.* Awards under this Plan are intended to comply with or be exempt from Section 409A of the Code and shall be construed and interpreted in accordance with such intent. To the extent that an Award or the payment, settlement or deferral thereof is subject to Section 409A of the Code, the Award shall be granted, paid, settled or deferred in a manner that will comply with Section 409A of the Code, except as otherwise determined by the Committee. Notwithstanding the foregoing, the Company, the Board and the Committee shall have no liability to a Participant, or any other party, if an Award that is intended to be exempt from, or compliant with, Section 409A of the Code is not so exempt or compliant or for any action taken or that was not taken by the Board or the Committee.
- 13.17 *Awards Subject to Clawback.* The Awards granted under the Plan and any cash payment or Shares delivered pursuant to an Award are subject to forfeiture, recovery by the Company or other action pursuant to the applicable Award Agreement or any clawback or recoupment policy which the Company may adopt from time to time, including without limitation any such policy which the Company may be required to adopt under the Dodd-Frank Wall Street Reform and Consumer Protection Act and implementing rules and regulations thereunder, or as otherwise required by law.
- 13.18 *Captions.* The captions in the Plan are for convenience of reference only, and are not intended to narrow, limit or affect the substance or interpretation of the provisions contained herein.

Rule 13a-14(a)/15d-14(a) Certification

I, Saumya Sutaria, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tenet Healthcare Corporation (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: July 29, 2022

/s/ SAUMYA SUTARIA

Saumya Sutaria, M.D.

Chief Executive Officer

Rule 13a-14(a)/15d-14(a) Certification

I, Daniel J. Cancelmi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tenet Healthcare Corporation (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: July 29, 2022

/s/ DANIEL J. CANCELMI

Daniel J. Cancelmi

Executive Vice President and Chief Financial Officer

**Certifications Pursuant to Section 1350 of Chapter 63
of Title 18 of the United States Code**

We, the undersigned Saumya Sutaria and Daniel J. Cancelmi, being, respectively, the Chief Executive Officer and the Executive Vice President and Chief Financial Officer of Tenet Healthcare Corporation (the “Registrant”), do each hereby certify that (i) the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2022 (the “Form 10-Q”), to be filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Registrant and its subsidiaries.

Date: July 29, 2022

/s/ SAUMYA SUTARIA

Saumya Sutaria, M.D.

Chief Executive Officer

Date: July 29, 2022

/s/ DANIEL J. CANCELMI

Daniel J. Cancelmi

Executive Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. §1350; it is not being filed for purposes of Section 18 of the Securities Exchange Act, and is not to be incorporated by reference into any filing of the Registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.