

COMMUNITY HEALTH SYSTEMS INC
Form DEF 14A
April 04, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES

EXCHANGE ACT OF 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under §240.14a-12

COMMUNITY HEALTH SYSTEMS, INC.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4. Proposed maximum aggregate value of transaction:

5. Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1. Amount previously paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:



April 4, 2019

DEAR FELLOW STOCKHOLDERS,

I am pleased to announce the Community Health Systems, Inc. 2019 Annual Meeting. The attached Notice of Annual Meeting of Stockholders and Proxy Statement describe the business to be considered and voted on during that meeting. I encourage you to read the Proxy Statement carefully for more information.

It is important that your shares be represented at the Annual Meeting. Whether or not you plan on attending the meeting, the Company would appreciate your efforts to vote your shares. Additional information on this process can be found in the Proxy Statement.

I do not believe that communication begins and ends with the Annual Meeting. We look forward to a continuing dialogue with our stockholders in the future. Thank you for your investment in Community Health Systems, Inc. and your support.

Sincerely,

Wayne T. Smith

Chairman and Chief Executive Officer



COMMUNITY HEALTH SYSTEMS, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Tuesday, May 14, 2019

8:00 a.m. (Central Time)

Franklin Marriott Cool Springs, 700 Cool Springs Blvd., Franklin, Tennessee 37067

The Annual Meeting of Stockholders of Community Health Systems, Inc. will be held on Tuesday, May 14, 2019 at 8:00 a.m. (Central Time) at Franklin Marriott Cool Springs, 700 Cool Springs Blvd., Franklin, Tennessee 37067, to consider and act upon the following matters:

1. To elect eleven (11) directors, each to serve for a term of one year to expire at the 2020 Annual Meeting of Stockholders;
2. To hold an advisory vote on executive compensation;
3. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2019;
4. To transact such other business as may properly come before the meeting and any adjournment or postponement thereof.

The close of business on March 18, 2019, has been fixed as the record date for the determination of stockholders entitled to notice of and to vote at the meeting and any adjournment or postponement thereof.

YOU ARE REQUESTED, WHETHER OR NOT YOU PLAN TO BE PRESENT AT THE MEETING, TO VOTE VIA THE INTERNET OR BY TELEPHONE, OR COMPLETE, DATE, SIGN AND RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED ENVELOPE. IF YOU ATTEND THE MEETING AND WISH TO VOTE YOUR SHARES PERSONALLY, YOU MAY DO SO AT ANY TIME BEFORE THE PROXY IS EXERCISED. IF YOU HOLD YOUR SHARES THROUGH A BANK, BROKER OR OTHER NOMINEE, YOU MAY VOTE YOUR SHARES BY THE METHODS SPECIFIED ON THE VOTING INSTRUCTION FORM THAT THEY PROVIDE. WE ENCOURAGE YOU TO VOTE YOUR SHARES AS SOON AS POSSIBLE.

By Order of the Board of Directors,

Christopher G. Cobb

Vice President-Legal and Corporate Secretary

Franklin, Tennessee

April 4, 2019



**ANNUAL MEETING OF STOCKHOLDERS OF
COMMUNITY HEALTH SYSTEMS, INC.**

PROXY STATEMENT

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FORWARD-LOOKING STATEMENTS

This Proxy Statement contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995 that involve risk and uncertainties. All statements in this Proxy Statement other than statements of historical fact, including statements regarding projections, expected operating results, and other events that depend upon or refer to future events or conditions or that include words such as expects, anticipates, intends, plans, believes, estimates, thinks, and similar expressions, are forward-looking statements. Although the Company believes that these forward-looking statements are based on reasonable assumptions, these assumptions are inherently

subject to significant economic and competitive uncertainties and contingencies, which are difficult or impossible to predict accurately and may be beyond the control of the Company. Accordingly, the Company cannot give any assurance that its expectations will in fact occur and cautions that actual results may differ materially from those in the forward-looking statements. A number of factors could affect the future results of the Company or the healthcare industry generally and could cause the Company's expected results to differ materially from those expressed in this Proxy Statement. These factors including, without limitation, the risks and uncertainties disclosed in our public filings with the Securities and Exchange Commission, including in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on February 21, 2019. We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events, or otherwise.



SUMMARY

This summary highlights information about Community Health Systems, Inc. (the Company, we, our, or us) and certain information contained elsewhere in this Proxy Statement. Our stockholders will be asked to consider and vote on the matters listed below at our 2019 Annual Meeting of Stockholders. This summary does not contain all of the information that you should consider, and you should read the entire Proxy Statement before voting. In addition, for more complete information about the Company's business and details about the Company's 2018 performance highlights and the financial measures mentioned in this Proxy Statement, please review the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 21, 2019.

2018 FINANCIAL PERFORMANCE HIGHLIGHTS

During 2018, we continued executing on a number of changes to our business, with a focus on improving our overall performance and efficiency. Our consolidated financial results reflect the impact of divestitures completed during 2018 and 2017, including a reduction in net operating revenues and Adjusted EBITDA. However, while we owned and operated fewer hospitals during 2018, we realized improved consolidated Adjusted EBITDA margin as well as improved same-store results across volumes and pricing. We continued our progress across strategic initiatives, such as improving our patient safety and quality, reinforcing our competitive position in core markets, enhancing our patient connectedness, and investing in operational efficiency. A few examples of progress in these areas include our continued reduction in our Serious Safety Event Rate (SSER), investment in new patient access points, growth of our patient transfer and access program, and savings on key expense items. We believe this focus and investment has strengthened the Company and positioned us for improved performance going forward.

In addition to the investments in our core operations, we continue to optimize our core portfolio through our portfolio rationalization strategy. In this regard, during 2018, we completed the divestiture of 11 hospitals, and divested two additional hospitals effective January 1, 2019. We intend to continue to pursue our portfolio rationalization strategy in 2019. From these efforts, we have seen improvements in the performance of our core assets. Moving forward, we intend to take advantage of further portfolio optimization opportunities and expect these efforts to allow the Company to lower overall debt and shift focus to hospitals and networks with stronger market position, which we believe will improve our performance and enhance long-term stockholder value.

Our performance results during 2018 and 2017 are reflected in the chart below.

Performance Results

For the Years Ended December 31, 2018 and 2017

(dollars in millions, except per share amounts)

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	2018	2017	% Increase/ (Decrease)
Key Metrics	Results	Results	(Decrease)
Net Operating Revenues ⁽¹⁾	\$14,155	\$15,353	(7.8)%
Net loss attributable to Community Health Systems Inc. stockholders	\$(788)	\$(2,459)	68.0%
Net loss attributable to Community Health Systems Inc. stockholders as a % of net operating revenues	(5.6)%	(16.0)%	65.0%
Adjusted EBITDA ⁽¹⁾⁽²⁾	\$1,642	\$1,703	(3.6)%
Adjusted EBITDA as a percentage of net operating revenues ⁽¹⁾⁽²⁾	11.6%	11.1%	4.6%
Cash Flow from Operations	\$274	\$773	(64.6)%
Loss per Diluted Share from Continuing Operations, as reported	\$(6.99)	\$(21.89)	68.1%
(Loss) income per Diluted Share from Continuing Operations, excluding Adjustments ⁽¹⁾⁽²⁾	\$(1.94)	\$(1.20)	(61.7)%
Stock Price as of December 31	\$2.82	\$4.26	(33.8)%

(1) Includes a \$591 million adjustment for the adverse impact of the change in estimate for contractual allowances and provision for bad debts recorded during the three months ended December 31, 2017. This adjustment reduced net operating revenues and Adjusted EBITDA by \$591 million and income from continuing operations by \$378 million, or \$3.38 per share (diluted), for the year ended December 31, 2017.

(2) Adjusted EBITDA and Income per Diluted Share from Continuing Operations, excluding adjustments, are non-GAAP financial measures. For a definition of these non-GAAP financial measures and why we believe these non-GAAP financial measures present useful information to investors, as well as a reconciliation of these non-GAAP financial measures to the most comparable GAAP measures, see Annex A.



(1) Includes a \$169 million increase in the Company's allowance for doubtful accounts on the December 31, 2015 consolidated balance sheet and a corresponding \$169 million increase to the provision for bad debts related to a change in estimate recorded during the three months ended December 31, 2015. This adjustment reduced net operating revenues and Adjusted EBITDA by \$169 million and income from continuing operations by \$108 million, or \$0.94 per share (diluted) for the year ended December 31, 2015.

(2) Includes a \$591 million adjustment for the adverse impact of the change in estimate for contractual allowances and provision for bad debts recorded during the three months ended December 31, 2017. This adjustment reduced net operating revenues and Adjusted EBITDA by \$591 million and income from continuing operations by \$378 million, or \$3.38 per share (diluted), for the year ended December 31, 2017.

(3) Income (Loss) per Diluted Share from Continuing Operations, as adjusted, reflects our reported Income (Loss) per Diluted Share from Continuing Operations for the periods presented adjusted for certain items as reflected on Annex A. Adjusted EBITDA is EBITDA (which is a non-GAAP financial measure that consists of net loss attributable to Community Health Systems, Inc. before interest, income taxes and depreciation and amortization) adjusted for certain items as reflected on Annex A. For a definition and reconciliation of Adjusted EBITDA and Income per Diluted Share from Continuing Operations excluding adjustments, to the most comparable GAAP measures, and why we believe these non-GAAP financial measures present useful information to investors, see Annex A.



BOARD OF DIRECTORS NOMINEES

Upon the recommendation of our Governance and Nominating Committee, our Board of Directors has nominated eleven (11) people for election at this Annual Meeting to hold office until the next annual meeting and the election of their successors. A more detailed biography of each director can be found on pages 17 to 22 of the Proxy Statement.

Name/Experience/Occupation	Director Since	Committee Memberships
John A. Clerico	2003	Compensation*, Audit & Compliance
Mr. Clerico brings executive leadership experience to the Board. He has held positions of chairman of the board, chief executive officer, co-chief operating officer, chief financial officer and treasurer during various points in his career working for such notable companies as Praxair and Union Carbide. He is currently chairman and registered financial advisor of ChartMark Investments.		
Michael Dinkins	2017	Audit & Compliance
Mr. Dinkins brings extensive experience to the Board based on his prior service as a board member and chief financial officer of Integer Holdings Corp., a publicly-traded company, as well as knowledge of complex financial and operational issues facing large organizations and an understanding of operations and financial strategy in challenging environments. He is currently president and chief executive officer of Dinkins Financial, a consulting company that helps small businesses gain access to capital.		
James S. Ely III	2009	Audit & Compliance*
Mr. Ely founded PriCap Advisors LLC in 2009 and has served as its chief executive officer since inception. He has extensive banking experience having worked as senior banker and managing director in JP Morgan's syndicated and leveraged finance group.		
John A. Fry	2004	Compensation,

Mr. Fry currently serves as president of Drexel University in Philadelphia, Pennsylvania. Prior to that, he served as president of Franklin & Marshall College in Lancaster, Pennsylvania. Mr. Fry has unique experience as the president of an academic institution along with prior experience with the University of Pennsylvania health system.

Governance & Nominating

Tim L. Hingtgen

Mr. Hingtgen is our President and Chief Operating Officer and joined the company in 2008. Mr. Hingtgen has over 20 years of healthcare management experience and is a highly accomplished hospital operator with a track record of successfully optimizing hospital operations and developing regional healthcare networks.

2017

Elizabeth T. Hirsch

Ms. Hirsch brings valuable insight in accounting and finance, having served as vice president and controller of Praxair, Inc., from 2010 until her retirement in August 2016. Prior to becoming controller, Ms. Hirsch served as Praxair's director and then vice president of investor relations from 2002 until 2010. Prior to joining Praxair, she had fifteen years of experience in corporate banking.

2018

William Norris Jennings, M.D.

Dr. Jennings is currently retired after more than 43 years as a practicing family medicine physician, most recently with KentuckyOne Health in Louisville, Kentucky. He brings a recently-practicing physician's perspective to the Board and has hands on experience managing large physician practices.

2008

Governance & Nominating

K. Ranga Krishnan, MBBS

Dr. Krishnan's service as the dean of two medical schools, including Rush and Duke-NUS, and as an executive and administrator at a large medical center provides the Board with valuable experience in the management of physician practices and in maintaining compliance with the complex regulatory requirements of the hospital and healthcare industries.

2017

Governance & Nominating



Name/Experience/Occupation	Director Since	Committee Memberships
<p>Julia B. North</p> <p>Ms. North is our Lead Director. She is currently retired. Ms. North has served in many senior executive positions including president of consumer services for Bellsouth Telecommunications. She currently serves on the board of directors of Acuity Brands, Inc.</p>	2004	Governance & Nominating*, Compensation
<p>Wayne T. Smith</p> <p>Mr. Smith is our Chairman and Chief Executive Officer. Mr. Smith joined the company in 1997 and was subsequently elected to the Board. He is one of the most tenured executives in the hospital industry and has led the Company's growth to become one of the largest publicly traded hospital companies in the nation. He serves on the boards of the Federation of American Hospitals and Auburn University.</p>	1997	Chairman of the Board
<p>H. James Williams, Ph.D.</p> <p>Dr. Williams currently serves as the president of Mount St. Joseph University in Cincinnati, Ohio. Prior to that, he served as president of Fisk University in Nashville, Tennessee. He brings diverse experience in finance, law and higher education to the Board.</p>	2015	Audit & Compliance

**Chairman of Committee*

CORPORATE GOVERNANCE HIGHLIGHTS

Annual election of directors	Stock ownership guidelines for directors and executive officers aligned with industry standards	Annual Board and Board Committee Self-Evaluations
Directors elected by majority vote	Policy prohibiting pledging and hedging of our stock	Board participation in executive succession planning sessions

<p>Independent directors comprise super-majority of the Board</p>	<p>Strong compliance program</p>	<p>Compensation clawback policy</p>
<p>Comprehensive Code of Conduct and Corporate Governance Guidelines</p>	<p>Resignation policy for directors who do not receive more votes than against their election</p>	<p>Strong pay-for-performance philosophy</p>
<p>Written charters for all Board Committees which are reviewed annually</p>	<p>All Board Committees consist solely of independent directors</p>	<p>One class of voting shares outstanding</p>
<p>Limits on the number of other public company boards on which our directors may serve</p>	<p>Independent Lead Director of the Board, who presides at regularly scheduled executive sessions of our Board</p>	
<p>Risk oversight by full Board and Board Committees</p>	<p>100% Board and Committee meeting attendance in 2018</p>	

STOCKHOLDER ENGAGEMENT

We value our stockholders' perspective on our business and each year interact with stockholders through a variety of stockholder engagement activities. In 2018, our key stockholder engagement activities included attendance at six investor conferences, five large group investor and prospective investor meetings at our corporate offices, and our 2018 Annual Meeting of Stockholders. Our Investor Relations department is the contact point for stockholder interaction with the Company. Stockholders may also access investor information about the Company through our website www.chs.net/investor-relations. For questions concerning Investor Relations, you may call (615) 465-7000 or email us from the Contact Us section on our website (www.chs.net/contact-us/).



ALIGNING PAY AND PERFORMANCE

2018 Executive Compensation

At our 2018 Annual Meeting of Stockholders, approximately 96% of the votes cast by our stockholders, excluding broker non-votes, were voted in favor of the Company's advisory Say-on-Pay proposal with respect to the compensation of our Named Executive Officers as described in our 2018 Proxy Statement. As our Compensation Committee has continued to review our compensation practices, it is mindful of the level of support received from our stockholders with respect to this Say-on-Pay proposal.

As a leader in the hospital sector of the healthcare industry, one of the nation's largest and most dynamic industries, the Company must ensure that it attracts and retains the leadership and managerial talent needed to sustain its position in this rapidly changing industry. To remain competitive in the Company's financial, capital and business markets, the Company continues to focus on improving earnings and profitability as paramount objectives of the Company's strategy. We believe these strategic objectives are fundamental points of alignment between stockholder value and the compensation of executive management.

Our performance in 2018 was significantly improved, in comparison to 2017, and we achieved certain of our financial targets as initially set forth in the Company's earnings release issued in February 2018, and also progressed on several other key objectives intended to position the Company for future growth. Consistent with the Company's pay-for-performance philosophy, this resulted in annual cash incentive compensation for our named executive officers that, while somewhat lower than their target amounts for 2018 (for example, our Chief Executive Officer earned 87% of his target cash incentive award attainable for 2018), represented a significant increase in the annual cash incentive compensation paid to our named executive officers for 2018 in comparison to 2017. In addition, while the number of restricted shares granted to our executives in 2018 was higher than the number granted in 2017, the overall grant date fair value of the annual equity award to our named executive officers who held the same positions throughout 2018 and 2017 was lower in 2018 than it was in 2017.

We are committed to a continuing dialogue between stockholders and the Company to fully understand and consider stockholder concerns on executive compensation and other topics that are important to our stockholders. During 2018, we met or consulted with stockholders that held in the aggregate a majority of our shares to discuss topics that are important to our stockholders, including soliciting feedback on corporate governance matters and our executive compensation program. Our Compensation Committee considers the feedback and suggestions we receive in light of both market best practices and what we believe to be necessary to execute a best-in-class compensation program that successfully addresses our senior executive talent attraction and retention needs.

Going forward, we will continue to evaluate our executive compensation program in light of stockholder feedback, governance best practices, regulatory requirements, economic and industry factors, current trends in public company pay practices, and competitive considerations. We intend to continue to make changes, as applicable, that both ensure the alignment between the interests of our stockholders and our executives and reflect industry-leading executive compensation programs.



KEY FEATURES OF OUR COMPENSATION SYSTEM

What We Do

Pay for Performance A significant portion of the compensation for our NEOs is in the form of at-risk variable compensation.

Multiple Performance Metrics Cash incentive compensation and our performance-based restricted stock awards are based on multiple measures to encourage balanced initiatives.

Long-Term Performance Focus Half of the long-term equity awards for our NEOs are tied to three-year financial goals (for 2018 awards, Adjusted EBITDA Growth and Adjusted EBITDA Margin Improvement)

Total Shareholder Return is a factor in the Chief Executive Officer's and Chief Financial Officer's at-risk compensation.

Stock Ownership Guidelines All NEOs are subject to our stock ownership guidelines.

Clawback Provisions Our policy provides for the adjustment or recovery of compensation in certain circumstances.

Award Caps All of our annual cash incentive compensation plans and our performance-based restricted stock awards have caps on plan formulas.

Risk Assessment The Compensation Committee regularly assesses the risk levels of the Company's executive compensation program.

What We Don't Do

Excessive Perquisites Perquisites represent less than 1% of our NEOs' compensation.

Employment Agreements We do not have employment agreements with our NEOs, and all of our NEOs are employed on an at-will basis.

Excise Tax Gross-ups are not offered for any new executives covered under the Company's Change-in-Control Severance Agreements.

Single-trigger change-in-control cash severance payments Company's Plan documents prohibit single-trigger change-in-control cash severance payments.

Pledging or Hedging Company policy prohibits directors, executives, and certain other employees from pledging or hedging their stock in the Company.

Repricing of underwater stock options Company's Plan documents prohibit any repricing.

Use a representative and relevant peer group.

Use an independent compensation consultant.

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2018 COMPENSATION PROGRAM

The Company's executive compensation philosophy is to develop and utilize a combination of compensation elements that reward current period performance, continued service, and attainment of future goals, and is designed to encourage the retention of executive talent. The key elements of executive compensation are linked either directly or indirectly to enhancing stockholder value. Attainment of annual incentive compensation requires achievement of targets with challenging thresholds and incentive compensation for above-target performance is capped. The Company continues to develop its compensation policies, programs, and disclosures to provide transparency and accountability to all of its stakeholders.

ELEMENT	PURPOSE
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