UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K/A
(Amendment No. 1)

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): August 31, 2015

MEDICAL PROPERTIES TRUST, INC.
MPT OPERATING PARTNERSHIP, L.P.
(Exact Name of Registrant as Specified in Charter)

Maryland	**001-32559**	**20-0191742**
Delaware	**333-177186**	**20-0242069**
(State or other jurisdiction of incorporation or organization)	**(Commission File Number)**	**(I.R.S. Employer Identification No.)**

1000 Urban Center Drive, Suite 501 Birmingham, AL	**35242**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (205) 969-3755

N/A
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the Registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Explanatory Note

On August 31, 2015, affiliates of Medical Properties Trust, Inc. (the "Company") and MPT Operating Partnership, L.P. (the "Operating Partnership") completed the previously announced acquisition of all of the outstanding interests in Capella Holdings, Inc., the sole stockholder and parent company of Capella Healthcare, Inc. The acquisition was originally reported on a Current Report on Form 8-K, filed by the Company and Operating Partnership with the Securities and Exchange Commission on September 4, 2015 (the "Original Filing"). This amendment to the Original Filing is being filed to provide the historical financial statements of Capella Holdings, Inc. required by Item 9.01(a) of Form 8-K and the pro forma financial information required by Item 9.01(b) of Form 8-K, which financial statements and information were not included in the Original Filing.

The financial statements and information attached hereto should be read in conjunction with the Original Filing and this amendment.

Item 9.01. Financial Statements and Exhibits

(a) Financial Statements of Businesses Acquired.

The audited consolidated financial statements of Capella Holdings, Inc. as of December 31, 2013 and 2014, and for each of the years ended December 31, 2014 and 2013, are attached hereto as Exhibit 99.1.

The unaudited condensed consolidated financial statements of Capella Holdings, Inc. as of June 30, 2015 and for the six months ended June 30, 2015 are attached hereto as Exhibit 99.2.

(b) Pro Forma Financial Information.

The unaudited pro forma condensed consolidated financial statements of Medical Properties Trust, Inc. and Subsidiaries, and of MPT Operating Partnership, L.P. and Subsidiaries, as of June 30, 2015 and for the year ended December 31, 2014 and for the six months ended June 30, 2015, are attached hereto as Exhibit 99.3.

(d) Exhibits.

Exhibit No.	Description
23.1*	Consent of Ernst & Young LLP
99.1*	Audited consolidated financial statements of Capella Holdings, Inc.
99.2*	Unaudited condensed consolidated financial statements of Capella Holdings, Inc.
99.3*	Medical Properties Trust, Inc. and Subsidiaries and MPT Operating Partnership, L.P. and Subsidiaries unaudited pro forma condensed consolidated financial statements

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunder duly authorized.

MEDICAL PROPERTIES TRUST, INC.

By:	/s/ R. Steven Hamner
Name:	R. Steven Hamner
Title:	Executive Vice President and Chief Financial Officer

Date: November 9, 2015

MPT OPERATING PARTNERSHIP, L.P.

By:	/s/ R. Steven Hamner
Name:	R. Steven Hamner
Title:	Executive Vice President and Chief Financial Officer of the sole member of the general partner of MPT Operating Partnership, L.P.

Date: November 9, 2015

EXHIBIT INDEX

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* Filed herewith

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-3 No. 333-190543) of Medical Properties Trust, Inc.

(2) the Registration Statement (Form S-3 No. 333-186812) of Medical Properties Trust, Inc.

(3) the Registration Statement (Form S-8 No. 333-190533) of Medical Properties Trust, Inc.

(4) the Registration Statement (Form S-8 No. 333-126574) of Medical Properties Trust, Inc.

(5) the Registration Statement (Form S-8 No. 333-130337) of Medical Properties Trust, Inc.

(6) the Registration Statement (Form S-8 No. 333-161409) of Medical Properties Trust, Inc.

(7) the Registration Statement (Form S-3 No. 333-190543) of MPT Operating Partnership, L.P. and Subsidiaries

of our report dated March 27, 2015, with respect to the consolidated financial statements of Capella Holdings, Inc. included in this Current Report on Form 8-K/A of Medical Properties Trust, Inc.

/s/ ERNST & YOUNG LLP

Nashville, Tennessee
November 9, 2015

Exhibit 99.1

Capella Holdings, Inc.

Consolidated Financial Statements

Years Ended December 31, 2014 and 2013

With Report of Independent Auditors

Capella Holdings, Inc.

Consolidated Financial Statements

Years Ended December 31, 2014 and 2013

Contents

Report of Independent Auditors

The Board of Directors and Stockholders
Capella Holdings, Inc.

We have audited the accompanying consolidated financial statements of Capella Holdings, Inc., which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, stockholders' deficit and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Capella Holdings, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

March 27, 2015

Capella Holdings, Inc.

Consolidated Balance Sheets

(In Millions, Except for Share Amounts)

	December 31 2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 29.2	$ 26.5
Restricted cash	73.9	—
Investments	20.3	17.5
Accounts receivable, net of allowance for doubtful accounts of $84.4 million and $105.5 million at December 31, 2014 and 2013, respectively	120.9	126.3
Inventories	23.7	24.3
Prepaid expenses and other current assets	5.0	4.9
Other receivables	6.0	4.5
Assets held for sale	33.7	13.1
Deferred tax assets	2.4	2.5
Total current assets	315.1	219.6
Property and equipment:		
Land	30.9	37.8
Buildings and improvements	366.1	389.4
Equipment	239.2	245.1
Construction in progress (estimated cost to complete at December 31, 2014 is $28.1 million)	7.9	8.0
	644.1	680.3
Accumulated depreciation	(234.5)	(224.2)
	409.6	456.1
Goodwill	127.9	133.6
Intangible assets, net	10.9	13.2
Other assets, net	12.3	11.3
Total assets	$ 875.8	$ 833.8
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable	$ 30.0	$ 28.5
Salaries and benefits payable	27.5	23.8
Accrued interest	23.3	23.3
Other accrued liabilities	24.9	32.6
Current portion of long-term debt	6.0	49.6
Revolving facility	5.0	—
Liabilities held for sale	3.6	1.9
Total current liabilities	120.3	159.7
Long-term debt	607.8	507.8
Deferred income taxes	18.2	17.3
Other liabilities	30.0	28.6
Redeemable noncontrolling interests	11.7	21.4
Cumulative redeemable preferred stock	—	340.5
Stockholders' deficit:		
Common stock, $0.01 par value; 1,300,000,000 shares authorized; 766,632,582 and 61,959,209 shares issued and outstanding at December 31, 2014 and 2013, respectively	7.5	0.6
Subscription notes receivable	—	(0.2)
Capital in excess of par value	214.5	2.6
Accumulated other comprehensive income	0.9	0.4
Retained deficit	(135.1)	(244.9)
Total stockholders' deficit	87.8	(241.5)
Total liabilities and stockholders' deficit	$ 875.8	$ 833.8

See accompanying notes.

Capella Holdings, Inc.

Consolidated Statements of Operations

(In Millions)

	Year Ended December 31 2014	2013
Revenue before provision for bad debts	$ 788.9	$ 769.0
Provision for bad debts	(75.5)	(100.8)
Revenue	713.4	668.2
Costs and expenses:		
Salaries and benefits	333.5	312.7
Supplies	121.7	116.0
Purchased services	61.4	58.1
Other operating expenses	113.7	108.6
Other income	(13.2)	(10.7)
Management fee to related-party	0.2	0.2
Interest, net	53.7	54.9
Depreciation and amortization	41.5	41.5
Total costs and expenses	712.5	681.3
(Loss) income from continuing operations before income taxes	0.9	(13.1)
Income taxes	4.7	4.0
Loss from continuing operations	(3.8)	(17.1)
Loss from discontinued operations, net of tax	(18.4)	(11.8)
Net loss	(22.2)	(28.9)
Less net income attributable to non-controlling interests	1.8	1.3
Net loss attributable to Capella Holdings, Inc.	$ (24.0)	$ (30.2)

See accompanying notes.

Capella Holdings, Inc.

Consolidated Statements of Comprehensive Loss

(In Millions)

	Year Ended December 31 2014	2013
Net loss	$ (22.2)	$ (28.9)
Other comprehensive income:		
Change in unrealized holding gains on investments in securities, net of taxes	0.5	0.3
Other comprehensive income	0.5	0.3
Comprehensive loss	(21.7)	(28.6)
Less: Net income attributable to non-controlling interests	1.8	1.3
Comprehensive loss attributable to Capella Holdings, Inc.	$ (23.5)	$ (29.9)

See accompanying notes.

Capella Holdings, Inc.

Consolidated Statements of Stockholders' Deficit

(In Millions, Except for Share Amounts)

	Common Stock		Subscription Notes Receivable	Capital in Excess of Par Value	Accumulated Other Comprehensive Income	Retained Deficit	Total Stockholders' Deficit
	Shares	Amount					
Balance at December 31, 2012	61,959,209	$ 0.6	$ (0.3)	$ 3.2	$ 0.1	$(193.6)	$ (190.0)
Amortization of subscription note receivable	—	—	0.1	—	—	—	0.1
Restricted stock vesting	—	—	—	0.7	—	—	0.7
Common stock repurchase	—	—	—	(0.1)	—	—	(0.1)
Preferred stock dividends	—	—	—	—	—	(21.1)	(21.1)
Change in unrealized holding gains on investments in securities, net of tax	—	—	—	—	0.3	—	0.3
Adjustment to redemption value of redeemable noncontrolling interests	—	—	—	(1.2)	—	—	(1.2)
Net loss	—	—	—	—	—	(30.2)	(30.2)
Balance at December 31, 2013	61,959,209	0.6	(0.2)	2.6	0.4	(244.9)	(241.5)
Amortization of subscription note receivable	—	—	0.2	—	—	—	0.2
Restricted stock vesting	18,815,979	—	—	4.1	—	—	4.1
Common stock repurchase	(439,863)	—	—	(0.1)	—	—	(0.1)
Conversion of preferred stock to common stock	686,297,257	6.9	—	199.4	—	140.1	346.4
Preferred stock dividends	—	—	—	—	—	(6.3)	(6.3)
Change in unrealized holding gains on investments in securities, net of tax	—	—	—	—	0.5	—	0.5
Adjustment to redemption value of redeemable noncontrolling interests	—	—	—	8.5	—	—	8.5
Net loss	—	—	—	—	—	(24.0)	(24.0)
Balance at December 31, 2014	766,632,582	$ 7.5	$ 0.0	$ 214.5	$ 0.9	$(135.1)	$ 87.8

See accompanying notes.

Capella Holdings, Inc.

Consolidated Statements of Cash Flows

(In Millions)

	Year Ended December 31 2014	2013
Operating activities		
Net loss	$ (22.2)	$ (28.9)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss from discontinued operations	18.4	11.8
Depreciation and amortization	41.5	41.5
Amortization of loan costs and debt discount	3.8	4.0
Provision for bad debts	75.5	100.8
Deferred income taxes	3.1	3.1
Stock-based compensation	4.1	0.8
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	(77.3)	(109.6)
Inventories	(1.3)	(0.4)
Prepaid expenses and other current assets	(2.4)	0.3
Accounts payable and other current liabilities	(2.4)	9.9
Accrued salaries	5.4	0.8
Other	3.1	(1.3)
Net cash provided by operating activities – continuing operations	49.3	32.8
Net cash used in operating activities – discontinued operations	(3.3)	(1.0)
Net cash provided by operating activities	46.0	31.8
Investing activities		
Purchases of investments	(3.1)	(1.0)
Sales and maturities of investments	1.2	—
Purchases of property and equipment, net	(24.5)	(24.9)
Escrow payment on acquisition of healthcare business	(73.9)	—
Proceeds from disposition of hospital	11.2	1.6
Net cash used in investing activities – continuing operations	(89.1)	(24.3)
Net cash used in investing activities – discontinued operations	(0.7)	(3.5)
Net cash used in investing activities	(89.8)	(27.8)
Financing activities		
Payment of debt and capital leases	(49.9)	(8.8)
Borrowings on Revolving Facility	40.0	—
Payments on Revolving Facility	(35.0)	—
Proceeds from Term Note	99.0	—
Repurchase of common stock	(0.1)	(0.1)
Payment of preferred to common coversion costs	(0.4)	—
Payment of debt issue costs	(5.4)	—
Distributions to noncontrolling interests	(1.8)	(1.2)
Repurchase of noncontrolling interests	0.1	(0.2)
Net cash provided by (used in) financing activities – continuing operations	46.5	(10.3)
Net cash used in financing activities – discontinued operations	—	(1.0)
Net cash provided by (used in) financing activities	46.5	(11.3)
Change in cash and cash equivalents	2.7	(7.3)
Cash and cash equivalents at beginning of year	26.5	33.8
Cash and cash equivalents at end of year	$ 29.2	$ 26.5
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 49.6	$ 51.2
Cash paid for taxes	$ 1.3	$ 0.5
Supplemental disclosure of noncash investing and financing activities		
Capital lease obligations	$ 5.4	$ 14.5
Preferred stock dividends	$ 6.3	$ 21.1

See accompanying notes.

1. Organization and Significant Accounting Policies

Organization

Capella Holdings, Inc. is a Delaware corporation and owns 100% of the outstanding common stock of Capella Healthcare, Inc. Auriga Insurance Group (Auriga), a wholly owned subsidiary of Capella Holdings, Inc., provides healthcare professional liability, commercial general liability insurance, and employee medical claim excess insurance coverage to the hospitals owned by Capella Healthcare, Inc. Capella Holdings, Inc. and subsidiaries are collectively referred to as the "Company." The Company operates hospitals and ancillary healthcare facilities in non-urban communities in the United States. The Company was formed on April 15, 2005 (date of inception) by and between GTCR Fund VIII, L.P., GTCR Fund VIII/B, L.P., GTCR Co-Invest II, L.P. (all investment funds managed by GTCR Golder Rauner LLC) and four senior hospital management executives and initially was capitalized on May 4, 2005.

At December 31, 2014, as part of continuing operations, the Company operated nine general acute care hospitals and ancillary healthcare facilities (eight of which the Company owns and one of which the Company leases pursuant to a long-term lease) with a total of 1,309 licensed beds. Unless noted otherwise, discussions in these notes pertain to the Company's continuing operations, which exclude the results of those facilities that have been previously disposed or are included in assets and liabilities held for sale.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries and entities controlled by the Company through the Company's direct or indirect ownership of a majority interest and exclusive rights granted to the Company as the sole general partner of such entities. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Discontinued Operations

In accordance with the provisions of Financial Accounting Standards Board (FASB) authoritative guidance regarding accounting for the impairment or disposal of long-lived assets, the Company has presented the operating results, financial position and cash flows of its previously disposed facilities, net of income taxes, in the accompanying consolidated financial statements.

(continued)

General and Administrative Costs

The majority of the Company's expenses are "cost of revenue" items. Costs that could be classified as "general and administrative" by the Company would include its corporate overhead costs, which were $28.6 million and $23.7 million for the years ended December 31, 2014 and 2013, respectively. Business development costs and refinancing related costs also included within the aforementioned general and administrative costs, included in other operating expenses on the consolidated statement of operations, were $2.2 million and $3.3 million for the years ended December 31, 2014 and 2013, respectively. Stock-based compensation costs also included within the aforementioned general and administrative costs, including in salaries and benefits on the consolidated statement of operations were $5.9 million and $0.8 million for the years ended December 31, 2014 and 2013, respectively

Fair Value of Financial Instruments

The fair value of a financial asset or liability is defined using an "exit price" definition. It is the amount that would be received to sell the asset or the amount that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of fair value hierarchy are described below:

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the company's own assumptions about the assumptions market participants would use in pricing the assets or liabilities.

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, inventories, prepaid expenses and other current assets, other receivables, accounts payable, salaries and benefits payable, accrued interest, and other accrued liabilities approximate fair value because of the short-term nature of these instruments. The carrying amount of the Company's 9 1/4% Senior Unsecured Notes due 2017 (the 9 1/4% Notes) and the Term Loan Facility (as defined in Note 5) was $500.0 million and $99.0 million, respectively, at December 31, 2014. The estimated fair value of the 9 1/4% Notes and Term Loan Facility at December 31, 2014 was approximately $521.3 million and $99.0 million, respectively. The estimated fair value of the 9 1/4% Notes was based on the average bid and ask price as quoted by the Company's administrative agent. The estimated of fair value of the Term Loan Facility is based upon the quoted market prices or quoted market prices for similar issues of long-term debt with the same maturities. The estimated fair value of the 9 1/4% % Notes and Term Loan Facility are categorized as Level 2 within the fair value hierarchy in accordance with Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements and Disclosures*.

(continued)

The following table presents the financial instruments measured at fair value on a recurring basis carried on the balance sheet by caption and by level within the valuation hierarchy as of December 31, 2014 and 2013 (in millions):

	Fair Value Measurements at Reporting Date Using			
	Level 1	Level 2	Level 3	December 31, 2014
Assets				
Available-for-sale	$ 20.3	$ —	$ —	$ 20.3

	Fair Value Measurements at Reporting Date Using			
	Level 1	Level 2	Level 3	December 31, 2013
Assets				
Available-for-sale	$ 17.5	$ —	$ —	$ 17.5

Revenue Recognition and Accounts Receivable

The Company recognizes revenue before the provision for bad debts, including revenue from in-house patients and patients which have been discharged but not yet billed, in the period in which services are performed. Accounts receivable primarily consist of amounts due from third-party payors and patients. The Company's ability to collect outstanding receivables is critical to its results of operations and cash flows. The Company has entered into agreements with third-party payors, including government programs and managed care health plans, under which the Company is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates or discounts from established charges. Amounts the Company receives for treatment of patients covered by governmental programs such as Medicare and Medicaid and other third-party payors such as health maintenance organizations, preferred provider organizations and other private insurers are generally less than the Company's established billing rates. Accordingly, the revenues and accounts receivable reported in the Company's consolidated financial statements are recorded at the amount expected to be received.

The following table sets forth the percentages of revenue before the provision for bad debts by payor:

	Year Ended December 31	
	2014	2013
Medicare(1)	39.0%	38.0%
Medicaid(1)	17.5	14.1
Managed care and other(2)	36.0	36.8
Self-pay	7.5	11.1
Total	100.0%	100.0%

(1) Includes revenue under managed Medicare or managed Medicaid programs.
(2) Includes the health insurance exchanges beginning with the first quarter of 2014.

(continued)

The Company derives a significant portion of its revenue before the provision for bad debts from Medicare, Medicaid and other payors that receive discounts from its standard charges. The Company must estimate the total amount of these discounts to prepare its consolidated financial statements. The Medicare and Medicaid regulations and various managed care contracts under which these discounts must be calculated are complex and are subject to interpretation and adjustment. The Company estimates the allowance for contractual discounts on a payor-specific basis given its interpretation of the applicable regulations or contract terms. These interpretations sometimes result in payments that differ from the Company's estimates. Additionally, updated regulations and contract renegotiations occur frequently, necessitating regular review and assessment of the estimation process by management. Changes in estimates related to the allowance for contractual discounts affect revenues reported in the Company's consolidated statements of operations.

Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined. Final determination of amounts earned under the Medicare and Medicaid programs often occurs subsequent to the year in which services are rendered because of audits by the programs, rights of appeal and the application of numerous technical provisions. There is at least a reasonable possibility that such estimates will change by a material amount in the near term. The net estimated third-party payor settlements receivable by the Company as of December 31, 2014, totaled $0.1 million compared to a payable of $5.7 million as of December 31, 2013. The net estimated third-party payor settlements are included in other accrued liabilities in the accompanying consolidated balance sheets. The net adjustments to estimated cost report settlements resulted in increases to revenue of $2.0 million for the year ended December 31, 2014, and a $0.6 million increase to revenue for the year ended December 31, 2013. The Company's management believes that adequate provisions have been made for adjustments that may result from final determination of amounts earned under these programs.

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the Company's financial statements. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

Medicare Settlement of Pending Appeals

In August 2014, in response to concerns that the "two midnight rule" has caused a growth in claim appeals, CMS announced that it is now offering to settle pending appeals in exchange for timely partial payment in an amount equal to 68% of the net allowable amount of all eligible claims. CMS has encouraged hospitals with inpatient status claims currently in the appeals process (or within the timeframe to request an appeal) to make use of this administrative agreement mechanism to reduce the administrative burden of current appeals on both the hospital and Medicare systems. CMS has further advised that the agreement only applies to eligible claims from eligible providers, and specifies that "eligible claims" are those denied by a Medicare contractor on the basis that services may have been reasonable and necessary but treatment on an inpatient basis was not, that are either under appeal or within their administrative timeframe to request an appeal review, with dates of admissions prior to October 1, 2013, and where the claim was not paid under Medicare Part B. Hospitals had until October 31, 2014 to participate in the settlement, but could request an extension, if needed. CMS has advised that it will pay hospitals within 60 days of validating the eligible claims. As of December 31, 2014, the Company has elected to participate in the settlement and has recognized $1.2 million in revenues in the accompanying condensed consolidated statement of operations related to the eligible claims.

(continued)

Provision for Bad Debts and Allowance for Doubtful Accounts

To provide for accounts receivable that could become uncollectible in the future, the Company establishes an allowance for doubtful accounts to reduce the carrying value of such receivables to their estimated net realizable value. The primary uncertainty of such allowances lies with uninsured patient receivables and deductibles, co-payments or other amounts due from individual patients.

Additions to the allowance for doubtful accounts are made by means of the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts and subsequent recoveries are added. The amount of the provision for bad debts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in federal, state, and private employer healthcare coverage and other collection indicators. The provision for bad debts and the allowance for doubtful accounts relate primarily to "uninsured" amounts (including copayment and deductible amounts from patients who have healthcare coverage) due directly from patients. Accounts are written off when all reasonable internal and external collection efforts have been performed. The Company considers the return of an account from the primary external collection agency to be the culmination of its reasonable collection efforts and the timing basis for writing off the account balance. Accounts written off are based upon specific identification and the write-off process requires a write-off adjustment entry to the patient accounting system. Management relies on the results of detailed reviews of historical write-offs and recoveries (the hindsight analysis) as a primary source of information to utilize in estimating the collectability of the Company's accounts receivable. The Company performs the hindsight analysis on quarterly basis for all hospitals, utilizing rolling twelve-month accounts receivable collection, write-off, and recovery data. The Company supplements its hindsight analysis with other analytical tools, including, but not limited to, revenue days in accounts receivable, historical cash collections experience and revenue trends by payor classification. Adverse changes in general economic conditions, billing and collections operations, payor mix, or trends in federal or state governmental healthcare coverage could affect the Company's collection of accounts receivable, cash flows, and results of operations.

A summary of activity in the Company's allowance for doubtful accounts is as follows (in millions):

	Balances at Beginning of Year	Additions Charged to Provision for Bad Debts	Accounts Written Off, Net of Recoveries	Balances at End of Year
Year ended December 31, 2013	$ 93.6	$ 100.8	$ (88.9)	$ 105.5
Year ended December 31, 2014	105.5	75.5	(96.6)	84.4

Charity Care

Self-pay revenue is derived primarily from patients who do not have any form of healthcare coverage. The Company provides care without charge to certain patients that qualify under the Company's charity/indigent care policy. The Company does not report a charity/indigent care patient's charges in revenues or in the provision for bad debts as it is the Company's policy not to pursue collection of amounts related to these patients. At the Company's hospitals, patients treated for non-elective care, who generally have income at or below 200% of the federal poverty level, are eligible for charity care. The federal poverty level is established by the federal government and is based on income and family size. The Company's hospitals provide a discount to uninsured patients who do not qualify for Medicaid or charity care. These discounts are similar to those provided to many local managed care plans. In implementing

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the discount policy, the Company first attempts to qualify uninsured patients for Medicaid, other federal or state assistance or charity care. If an uninsured patient does not qualify for these programs, the uninsured discount is applied.

The Company estimates its cost of care provided under its charity care programs utilizing a calculated ratio of costs to gross charges multiplied by the Company's gross charity care charges provided. For the years ended December 31, 2014 and 2013, the Company estimates that its costs of care provided under its charity care programs were approximately $1.2 million and $2.7 million, respectively.

Concentration of Revenues

For the years ended December 31, 2014 and 2013, approximately 56.5% and 52.1%, respectively, of the Company's revenue before the provision for bad debts related to patients participating in the Medicare and Medicaid programs. The Company's management recognizes that revenue and receivables from government agencies are significant to the Company's operations, but it does not believe that there are significant credit risks associated with these government agencies. The Company's management does not believe that there are any other significant concentrations of revenue from any particular payor that would subject the Company to any significant credit risks in the collection of its accounts receivable.

Other Income

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA, collectively referred to as the Health Information Technology for Economic and Clinical Health Act (the HITECH Act), are intended to promote the adoption and meaningful use of interoperable health information technology and qualified EHR technology.

The Company accounts for EHR incentive payments in accordance with ASC 450-30, *Gain Contingencies*. In accordance with ASC 450-30, the Company recognizes a gain for EHR incentive payments when its eligible hospitals and physician practices have demonstrated meaningful use of certified EHR technology for the applicable period and when the cost report information for the full cost report year that determines the final calculation of the EHR incentive payment is available. The demonstration of meaningful use is based on meeting a series of objectives and varies among hospitals and physician practices, between the Medicare and Medicaid programs and within the Medicaid program from state to state. Additionally, meeting the series of objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by the Centers for Medicare and Medicaid Services (CMS).

For the years ended December 31, 2014 and 2013, the Company recognized $13.2 million and $10.7 million, respectively, in EHR incentive payments in accordance with the HITECH Act under the Medicaid and Medicare programs which is included in other income on the accompanying consolidated statement of operations. Amounts recognized as other income that the Company anticipates collecting in future periods, but that were uncollected as of the balance sheet date are included in the accompanying consolidated balance sheet. As of December 31, 2014 and 2013, outstanding receivable from Medicaid for EHR incentive payments totaled approximately $3.6 million and $2.0 million, respectively, and is included in other receivables on the accompanying consolidated balance sheets.

The Company incurs both capital expenditures and operating expenses in connection with the implementation of its various EHR initiatives. The amount and timing of these expenditures does not necessarily directly correlate with the timing of the Company's receipt or recognition of the EHR incentive payments.

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Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and marketable securities with original maturities of three months or less. The Company places its cash in financial institutions that are federally insured in limited amounts.

Restricted Cash

Restricted cash consists of cash placed in escrow for purchase of controlling ownership interest in Carolina Pines Regional Medical Center. The cash was placed in escrow on December 31, 2014 until the effective date of the transaction, which was January 1, 2015.

Investments

Investments in fixed income securities are categorized as available-for-sale and reported in the accompanying consolidated balance sheets at their fair market value based on quoted prices obtained from an independent investment manager. The cost of fixed income securities is adjusted for amortization of premium or accretion of discount. Such amortization is determined using the interest rate method and is included in net investment income. Realized gains and losses are calculated on a specific identification basis and included in other operating expenses on the consolidated statements of operations.

The Company evaluates declines in the fair value of its investments below their cost to determine whether they are other than temporary. If the decline in fair value is deemed to be other than temporary, the cost basis of the individual security is written down to fair value as a new cost basis and the amount of the write-down is included in the accompanying consolidated statements of operations in other operating expenses.

The Company considers a decline in the fair value of an equity investment below cost to be other than temporary if the Company does not have the intent and ability to hold the equity investment for a period of time sufficient to allow the anticipated recovery in fair value. If the Company intends to sell a debt security in an unrealized loss position or it is more likely than not that the amortized cost basis of the security will not be recovered prior to the sale of the security, the cost is adjusted. Any adjustments to cost or amortized cost are recorded in the consolidated statements of operations. Realized gains and losses, calculated by reference to the cost or amortized cost of the investment on a specific identification basis, are recorded in the consolidated statements of operations.

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The cost and fair market values of investments which are classified as available-for-sale are as follows (in millions):

	Cost	Unrealized Gain	Unrealized Loss	Fair Market Value
December 31, 2014				
Managed fixed income securities fund	$15.2	$ —	$ (0.2)	$ 15.0
Managed equities fund	3.7	1.6	—	5.3
	$18.9	$ 1.6	$ (0.2)	$ 20.3
December 31, 2013				
Managed fixed income securities fund	$13.6	$ —	$ (0.6)	$ 13.0
Managed equities fund	3.3	1.2	—	4.5
	$16.9	$ 1.2	$ (0.6)	$ 17.5

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market and are principally composed of medical supplies and pharmaceuticals. These inventory items are primarily operating supplies used in the direct or indirect treatment of patients.

Long-Lived Assets

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase capacities or extend useful lives are capitalized. Fully depreciated assets are retained in property and equipment accounts until they are disposed.

Depreciation is computed by applying the straight-line method over the estimated useful lives of buildings and improvements and equipment. Assets under capital leases are amortized using the straight-line method over the shorter of the estimated useful life of the assets or the lease term, excluding any lease renewals, unless the lease renewals are reasonably assured. Buildings and improvements are depreciated over estimated lives ranging generally from ten to forty years. Estimated useful lives of equipment vary generally from three to ten years. Depreciation and amortization expense totaled approximately $41.5 million for both years ended December 31, 2014 and 2013. Amortization expense related to assets under the Company’s capital leases is included under depreciation and amortization expense for the year ended December 31, 2014 and 2013.

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Assets under the Company's capital leases are as follows (in millions):

	December 31	
	2014	2013
Buildings and improvements	$ —	$ 37.0
Equipment	21.8	29.8
Total	21.8	66.8
Accumulated amortization	(5.4)	(12.8)
Total, net	$16.4	$ 54.0

The gross carrying amount of capitalized software for internal use was approximately $34.4 million and $30.5 million at December 31, 2014 and 2013, respectively, and the net carrying amount considered accumulated amortization was approximately $10.9 million and $9.7 million at December 31, 2014 and 2013, respectively. At December 31, 2014, there was approximately $1.4 million of capitalized costs for internal-use software that is currently in the development stage and will begin amortization once the software project is complete and ready for its intended use. Amortization expense on capitalized internal-use software was $4.8 million and $7.4 million at December 31, 2014 and 2013, respectively.

The Company evaluates its long-lived assets for possible impairment whenever circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable from estimated future cash flows. Fair value estimates are derived from established market values of comparable assets or internal calculations of estimated future net cash flows. The Company's estimates of future cash flows are based on assumptions and projections it believes to be reasonable and supportable. The Company's assumptions take into account revenue and expense growth rates, patient volumes, changes in payor mix, changes in legislation and other payor payment patterns.

Deferred Loan Costs

The Company records deferred loan costs for expenditures related to acquiring or issuing new debt instruments. These expenditures include bank fees and premiums, as well as attorneys' and filing fees. During 2014, the Company recorded additional deferred loan costs of $4.6 million related to the ABL Agreement (as defined in Note 5) and the Term Loan Facility. See Note 5, Debt Obligations, for additional information. Net deferred loan costs of $0.1 million were written off to interest expense as part of the transaction costs associated with the ABL Agreement. Deferred loan costs totaled approximately $9.8 million and $8.3 million, net of accumulated amortization of approximately $12.2 million and $13.3 million at December 31, 2014 and 2013, respectively, and are included in other assets on the accompanying consolidated balance sheets. The Company amortizes these deferred loan costs over the life of the respective debt instrument, using the effective interest method.

Goodwill and Intangible Assets

The Company accounts for its acquisitions under the provisions of FASB authoritative guidance regarding business combinations and goodwill and other intangible assets. Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill and intangible assets with indefinite lives are reviewed by the Company at least annually for impairment. The Company's business comprises a single reporting unit for impairment test purposes. For the purposes of these analyses, the Company's estimates of fair value are based on the income approach, which estimates the fair value of the Company based on its future discounted cash flows. In addition to the annual impairment reviews, impairment reviews are performed

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whenever circumstances indicate a possible impairment may exist. The Company performed its annual impairment tests as of October 1, and did not incur any impairment charges during the years ended December 31, 2014 and 2013.

The Company's intangible assets relate to contract-based physician minimum revenue guarantees, a non-competition agreement and certificates of need. The contract-based physician revenue guarantees are amortized over the terms of the respective agreements. The certificates of need were determined to have indefinite lives and, accordingly, are not amortized.

Physician Minimum Revenue Guarantees

The Company has committed to provide certain financial assistance pursuant to recruiting agreements, or "physician minimum revenue guarantees," with various physicians practicing in the communities it services. In consideration for a physician relocating to one of its communities and agreeing to engage in private practice for the benefit of the respective community, the Company may advance certain amounts of money to a physician, to assist in establishing his or her practice.

The Company accounts for its physician minimum revenue guarantees in accordance with the provisions of FASB authoritative guidance regarding accounting for minimum revenue guarantees. The Company records a contract-based intangible asset and related guarantee liability for new physician minimum revenue guarantees. The contract-based intangible asset is amortized to other operating expenses over the period of the respective physician contract, which is typically four years.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company assesses the likelihood that deferred tax assets will be recovered from future taxable income. To the extent the Company believes that recovery is more likely than not, a valuation allowance is established. To the extent the Company establishes a valuation allowance or increases this allowance, the Company must include an expense within the provision for income taxes in the consolidated statements of operations.

The Company follows the provisions of FASB authoritative guidance regarding income taxes. This guidance clarifies the accounting for uncertainties in income taxes recognized in financial statements and requires the impact of a tax position to be recognized in the financial statements if that position is more likely than not of being sustained by the taxing authority.

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Other Accrued Liabilities

The Company's other accrued liabilities, shown as a current liability in the accompanying consolidated balance sheets, consist of the following:

	Year Ended December 31 2014	2013
	(In Millions)	
Employee health IBNR reserve	$ 3.2	$ 3.4
Professional and general liability claims	2.6	2.5
Non-income tax accrual	3.3	2.6
Physician income guarantees liability	0.7	2.8
Workers compensation liability claims	1.2	1.1
Income taxes payable	0.3	0.1
Estimated amounts due to third-party payors	—	5.7
Deferred revenue related to EHR	5.6	7.3
Other	8.0	7.1
Total	$ 24.9	$ 32.6

Professional and General Liability Claims

Given the nature of the Company's operating environment, the Company is subject to potential medical malpractice lawsuits and other claims as part of providing healthcare services. To mitigate a portion of this risk, Capella Healthcare, Inc. maintains insurance through Auriga, for professional and general claims of $4.75 million per occurrence and $14.25 million in the aggregate per policy year, subject to a $250,000 self-insured retention per occurrence. Auriga also maintains umbrella policies for professional and general claims which cover an additional $60 million per occurrence and in the aggregate. The Company's reserves for professional and general liability claims are based upon independent actuarial calculations, which consider historical claims data, demographic considerations, severity factors, and other actuarial assumptions in determining reserve estimates. Reserve estimates are discounted to present value using a 1% discount rate.

Exposures at the Company's hospitals prior to the date of their respective acquisition are indemnified by the respective prior owners. Accordingly, the Company appropriately has not estimated any exposure for claims prior to the respective acquisition dates of its facilities. The Company utilized information to estimate its 2014 and 2013 liability for professional and general liability claims. Using historical claim payments and developments, the Company estimated the exposure for each of its facilities and recorded a reserve of approximately $29.3 million and $26.7 million at December 31, 2014 and 2013, respectively. The current portion of the reserves was $2.6 million and $2.5 million at both December 31, 2014 and 2013, respectively. This was included in other accrued liabilities on the accompanying consolidated balance sheets. The long-term portion of the reserves for professional and general liability claims is included in other liabilities on the accompanying consolidated balance sheets.

The Company's expense for professional and general liability claims each year includes: the actuarially determined estimate of losses for the current year, including claims incurred but not reported; the change in the estimate of losses for prior years based upon actual claims development experience as compared to prior actuarial projections; amortization of the insurance premiums for losses in excess of the Company's self-insured retention level; the administrative costs of the insurance program; and interest expense related to the discounted portion of the liability. The total expense recorded under the Company's professional and general liability insurance program for the years ended December 31, 2014 and 2013, was approximately $7.9 million and $7.5 million, respectively.

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Workers’ Compensation Reserves

Given the nature of the Company’s operating environment, it is subject to potential workers’ compensation claims as part of providing healthcare services. To mitigate a portion of this risk, the Company maintained insurance for individual workers’ compensation claims exceeding approximately $250,000 per occurrence. The Company’s facility located in the state of Washington participates in a state-specific program rather than the Company’s established program. The Company’s two facilities located in Oklahoma participate in a fully insured state-specific workers’ compensation program.

The Company’s reserve for workers’ compensation is based upon an independent third-party actuarial calculation, which considers historical claims data, demographic considerations, development patterns, severity factors and other actuarial assumptions. Reserve estimates are undiscounted and are revised on an annual basis. The reserve for workers’ compensation claims at the balance sheet date reflects the current estimate of all outstanding losses, including incurred but not reported losses, based upon an actuarial calculation. The Company’s reserve for workers’ compensation claims was approximately $4.0 million and $3.7 million at December 31, 2014 and 2013, respectively. The current portion of the reserves, $1.2 million and $1.1 million at December 31, 2014 and 2013, respectively, is included in other accrued liabilities on the accompanying consolidated balance sheets. The long-term portion of the reserves for workers’ compensation claims is included in other liabilities on the accompanying consolidated balance sheets.

The Company’s expense for workers’ compensation claims each year includes: the actuarially determined estimate of losses for the current year, including claims incurred but not reported; the change in the estimate of losses for prior years based upon actual claims development experience as compared to prior actuarial projections; amortization of the insurance premiums for losses in excess of the Company’s self-insured retention level; and the administrative costs of the insurance program. The total expense recorded under the Company’s workers’ compensation insurance program for the years ended December 31, 2014 and 2013, was approximately $1.7 million and $1.9 million, respectively.

Self-Insured Medical Benefits

The Company is self-insured for substantially all of the medical expenses and benefits of its employees. The reserve for medical benefits primarily reflects the current estimate of incurred but not reported losses, based upon an actuarial calculation. The undiscounted reserve for self-insured medical benefits was approximately $3.2 million and $3.4 million at December 31, 2014 and 2013, respectively, and is included in other accrued liabilities on the accompanying consolidated balance sheets. Capella Healthcare, Inc. purchases stop loss coverage from Auriga, in which Capella Healthcare, Inc. will be reimbursed for any employee’s medical claims that exceed $350,000 per year.

Redeemable Non-controlling Interests

The consolidated financial statements include all assets, liabilities, revenue and expenses of less than 100% owned entities controlled by the Company. Accordingly, management has recorded non-controlling interests in the earnings and equity of such consolidated entities.

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The Company's non-controlling interests include redemption features, including the ability to redeem interest upon death and retirement, which cause these interests not to meet the requirements for classification as permanent equity in accordance with FASB authoritative guidance. Redemption of these non-controlling interests features would require the delivery of cash. Accordingly, these non-controlling interests are classified in the mezzanine section of the Company's accompanying consolidated balance sheets.

A roll-forward of the redeemable non-controlling interests is shown in the table below:

	Redeemable Non-controlling Interests (In Millions)
Balance at December 31, 2012	$ 21.1
Net income attributable to non-controlling interests	0.5
Distributions to non-controlling interests	(1.2)
Repurchase of non-controlling interests	(0.2)
Adjustment to redemption value of redeemable non-controlling interests	1.2
Balance at December 31, 2013	21.4
Net income attributable to non-controlling interests	0.5
Distributions to non-controlling interests	(1.8)
Repurchase of non-controlling interests	0.1
Adjustment to redemption value of redeemable non-controlling interests	(8.5)
Balance at December 31, 2014	$ 11.7

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Restructuring

During April 2014, the Company completed an equity restructuring that included the conversion of $206.7 million preferred stock outstanding to a net 686.3 million shares of the Company's common stock and the forgiveness of $140.1 million of previously accrued dividends accreted as of March 31, 2014. See *Note 8. Stock-Based Compensation*, for additional information surrounding the issuance of stock-based awards by the Company to the Company's employees during the year ended December 31, 2014.

Stock-Based Compensation

The board of directors of the Company has adopted the Capella Holdings, Inc. 2006 Stock Option Plan (the 2006 Stock Option Plan), which permits the board of directors of the Company to issue stock options and other stock-based awards to certain of the Company's employees, subject to the terms and conditions set forth in the 2006 Stock Option Plan and in each award. The Company has never issued stock options under the 2006 Stock Option Plan. The Company has granted restricted share awards that generally vest between a one to five year period to certain of the Company's employees. In April 2014, the board of directors of the Parent adopted the Capella Holdings, Inc. 2014 Stock Option Plan (the 2014 Stock Option Plan) effectively replacing the 2016 Stock Option Plan. The Parent has issued to the Company's employees 89,838,000 stock options under the 2014 Stock Option Plan. The Parent has granted restricted share awards that generally vest between a one and five year period to certain of the Company's

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employees. The Company accounts for stock-based awards in accordance with the provisions of ASC 718-10 *Compensation – Stock Compensation*, (ASC 718-10). In accordance with ASC 718-10, the Company recognized compensation expense based on the estimated grant date fair value of each stock-based award of $4.1 million and $0.8 million for the years ended December 31, 2014 and 2013, respectively. The stock-based compensation expense is included in salaries and benefits in the accompanying consolidated statements of operations.

Recently Issued Accounting Pronouncement

Accounting Standards Update No. 2014-9

In May 2014, the FASB issued Accounting Standards Update No. 2014-9, *Revenue from Contracts with Customers* (ASU 2014-9). ASU 2014-9 provides for a single comprehensive principles-based standard for the recognition of revenue across all industries through the application of the following five-step process:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Among other provisions and in addition to expanded disclosure about the nature, amount, timing and uncertainty of revenue, as well as certain additional quantitative and qualitative disclosures, ASU 2014-9 changes the healthcare industry specific presentation guidance under ASU 2011-7, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-7). The provisions of ASU 2014-9 are effective for annual periods beginning after December 15, 2016, including interim periods within those years. Early adoption is not permitted. The Company is currently evaluating the impact that the adoption of ASU 2014-9 will have on its revenue recognition policies and procedures, financial position, result of operations, cash flows, financial disclosures and control framework

Accounting Standards Update No. 2014-8

In April 2014, the FASB issued ASU No. 2014-8, *Presentation of Financial Statements and Property, Plant, and Equipment – Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (ASU 2014-8). Among other provisions and in addition to expanded disclosures, ASU 2014-8 changes the definition of what components of an entity qualify for discontinued operations treatment and reporting from a reportable segment, operating segment, reporting unit, subsidiary or asset group to only those components of an entity that represent a strategic shift that has, or will have, a major effect on an entity's operations and financial results. Additionally, ASU 2014-8 requires disclosure about a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements, including the pretax profit or loss, attributable to the component of an entity for the period in which it is disposed of or is classified as held for sale. The disclosure of this information is required for all of the same periods that are presented in the entity's results of operations for the period. The provisions of ASU 2014-8 are effective prospectively for all disposals or classifications as held for sale of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted. The Company adopted this ASU on January 1, 2015 and does not believe the adoption will have a material impact on its consolidated financial position, results of operations and cash flows.

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2. Business Combinations

Lease of Muskogee Community Hospital

Effective July 1, 2012, the Company executed an asset purchase agreement in which the Company acquired specific property and components of net working capital, as defined, and certain intangible assets for $21.4 million. Of the purchase price, $8.4 million is in the form of a promissory note payable (MCH Note) in fifteen equal monthly installments beginning in July 2013. The MCH Note is included in current debt on the accompanying consolidated balance sheet as of December 31, 2013.

The Company also executed a master lease agreement for the real property and certain equipment used in the operation of MCH. Under the master lease agreement, the Company paid a lease payment of $565,000 per month. The Company had the option to purchase the leased real property and equipment at fair value as defined in the master lease agreement. The Company has recorded the master lease agreement as a capital lease and is included in current debt on the accompanying consolidated balance sheet as of December 31, 2013.

During July 2014, the Company exercised its purchase option under the MCH master lease agreement for approximately $39.4 million, excluding other costs and fees. Additionally, in July 2014, the Company repaid the outstanding principal balance for the MCH Note. The Company used $5.3 million in available cash and cash equivalents and $35.0 million in availability from its 2010 Revolving Facility (as defined in Note 5) to fund the purchase and repayment.

The acquisition of certain property and equipment and the net assets pursuant to the MCH asset purchase agreement was funded with cash on hand and through the execution of the MCH Note. The Company has finalized its application of the acquisition method of accounting.

The fair values of assets acquired and liabilities assumed at the acquisition date are as follows (in millions):

Accounts receivable, net	$ 2.7
Prepaids and other	0.2
Inventories	0.7
Property and equipment	3.0
Non-competition agreement	4.5
Goodwill	14.3
Total assets acquired	25.4
Accounts payable	3.3
Salaries and benefits payable	0.7
Total liabilities assumed	4.0
Net assets acquired	$21.4

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3. Discontinued Operations

On September 1, 2013, the Company completed the sale of certain home health operations at our Arkansas facilities. The combined proceeds from the sale were approximately $1.6 million. The recorded gain totaled approximately $1.2 million.

On February 28, 2014, the Company completed the sale of Grandview Medical Center ("Grandview"), a 70-bed facility located in Jasper, Tennessee. In connection with the planned divestiture, the Company recognized an estimated loss on the planned sale totaling $7.0 million during the year ended December 31, 2013. In addition, the Company recognized a $1.8 million loss on impairment for Grandview's goodwill during the year ended December 31, 2014. The Company recognized an additional loss for the sale of Grandview of $1.6 million during the year ended December 31, 2014

At December 31, 2014, the Company committed to plans to sell certain of its other facilities in Tennessee and Missouri due to operating conditions at those facilities. In connection with these planned divestures, the Company recognized an estimated loss on the planned sale totaling $15.9 million (including $5.8 million of goodwill) during the year ended December 31, 2014.

The Company has presented the operating results, financial positions and cash flows as discontinued operations in the accompanying consolidated financial statements for all periods, and the related assets and liabilities are reflected as held for sale in the accompanying consolidated balance sheet at December 31, 2014.

Revenue before the provision for bad debts and the loss reported in discontinued operations are as follows (in millions):

	Year Ended December 31	
	2014	2013
Revenue before the provision for bad debts from discontinued operations	$ 63.3	$ 90.7
Loss from discontinued operations:		
Loss (gain) from sale	$ 1.6	$ (1.2)
Loss from hold for sale adjustment	10.1	7.0
Loss from write-off of goodwill	5.8	1.8
Loss from operations	3.1	4.9
Pre-tax loss from discontinued operations	20.6	12.5
Tax benefit related to discontinued operations	(2.2)	(0.7)
Loss from discontinued operations, net of tax	$ 18.4	$ 11.8

(continued)

The following table provides the components of assets and liabilities held for sale (in millions):

	Year Ended December 31	
	2014	2013
Accounts receivable, net	$ 6.9	$ 4.3
Inventories	1.9	1.0
Prepaid expenses and other assets	1.5	0.3
Property and equipment, net	23.4	7.5
Assets held for sale	$ 33.7	$ 13.1
Accounts payable	$ 1.7	$ 1.2
Salaries and benefits payable	1.4	0.7
Other current liabilities	0.5	—
Liabilities held for sale	$ 3.6	$ 1.9

4. Goodwill and Intangible Assets

The following table presents a rollforward of the Company's goodwill for the years ended December 31, 2013 and 2012 (in millions):

Balance at January 1, 2013	$136.0
Adjustment to goodwill related to prior acquisitions	(0.6)
Impairment of goodwill related to the planned disposal Grandview Medical Center	(1.8)
Balance at December 31, 2013	133.6
Adjustment to goodwill related to prior acquisitions	0.1
Impairment of goodwill related to the planned disposal of assets and liabilities available for sale	(5.8)
Balance at December 31, 2014	$127.9

(continued)

The following table presents the components of the Company's intangible assets at December 31, 2014 and 2013 (in millions):

Class of Intangible Assets	Gross Carrying Amount	Accumulated Amortization	Net Total
Amortized intangible assets:			
Contract-based physician minimum revenue guarantees:			
2014	$ 12.1	$ (5.4)	$ 6.7
2013	13.8	(5.3)	8.5
Non-competition agreements:			
2014	4.5	(0.8)	3.7
2013	4.5	(0.5)	4.0
Indefinite-lived intangible assets:			
Certificates of need:			
2014	0.5	—	0.5
2013	0.7	—	0.7
Total intangible assets:			
2014	17.1	(6.2)	10.9
2013	19.0	(5.8)	13.2

Contract-Based Physician Minimum Revenue Guarantees

As discussed in Note 1, the Company records a contract-based intangible asset and a related guarantee liability for each new physician minimum revenue guarantee contract. The contract-based intangible asset is amortized into physician recruiting expense over the period of the physician contract, which is typically four years. The Company has committed to advance a maximum amount of approximately $2.7 million at December 31, 2014. As of December 31, 2014 and 2013, the Company's liability balance for contract-based physician minimum revenue guarantees was approximately $0.7 million and $2.8 million, respectively, which is included in other accrued liabilities in the accompanying consolidated balance sheets.

Non-Competition Agreements

The Company has entered into non-competition agreements with certain physicians and other individuals as part of the acquisition of MCH. These non-competition agreements are amortized on a straight-line basis over the fifteen year term of the agreements.

Certificates of Need

The construction of new facilities, the acquisition or expansion of existing facilities and the addition of new services and certain equipment at the Company's facilities may be subject to state laws that require prior approval by state regulatory agencies. These certificates of need laws generally require that a state agency determine the public need and give approval prior to the construction or acquisition of facilities of the addition of new services. The Company operates hospitals in certain states that have adopted certificate of need laws. If the Company fails to obtain necessary state approval, the Company will not be able to expand its facilities, complete acquisitions or add new services at its facilities in these states. An independent appraiser values each certificate of need when the Company acquires a hospital. In addition, these intangible assets were determined to have indefinite lives and, accordingly, are not amortized.

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Amortization Expense

Total estimated amortization expense for the Company's intangible assets during the next five years and thereafter are as follows (in millions):

2014	$ 2.9
2015	2.1
2016	1.3
2017	0.4
2018	0.1
Thereafter	3.6
	$10.4

5. Debt Obligations

A summary of the Company's debt obligations follows (in millions):

	December 31	
	2014	2013
9 ¼% notes	$500.0	$500.0
Unamortized discount on 9 ¼% senior notes	(2.2)	(3.2)
Total 9 ¼% notes	497.8	496.8
Term loan facility	100.0	—
Unamortized discount on term loan facility	(1.0)	—
Total term loan facility	99.0	—
Capital lease obligations	17.0	55.5
MCH Note	—	5.1
Total debt obligations	613.8	557.4
Less current maturities	6.0	49.6
Total long-term debt	$607.8	$507.8

Maturities of the Company's long-term debt at December 31, 2014, are as follows (in millions):

2015	$ 6.0
2016	6.2
2017	506.6
2018	2.2
2019	1.0
Thereafter	95.0
	$617.0

(continued)

9 ¼% Senior Unsecured Notes

In June 2010, the Company completed a comprehensive refinancing plan (the Refinancing). Under the Refinancing, the Company issued $500 million of new 9 ¼% Senior Unsecured Notes due 2017 (the 9 ¼% Notes) and entered into a new senior secured asset-based loan (ABL), consisting of a $100 million revolving credit facility maturing in December 2014 (the 2010 Revolving Facility).

Interest on the 9 ¼% Notes is payable semiannually on July 1 and January 1 of each year. The 9 ¼% Notes are unsecured general obligations of the Company and rank equal in right of payment to all existing and future senior unsecured indebtedness of the Company. All payments on the 9 ¼% Notes are guaranteed jointly and severally on a senior unsecured basis by the Company and its subsidiaries, other than those subsidiaries that do not guarantee the obligations of the borrowers under the Company's prior senior credit facilities.

The Company may redeem all or a part of the 9 ¼% Notes at any time on or after July 1, 2013, plus accrued and unpaid interest, if any, to the date of redemption plus a redemption price equal to a percentage of the principal amount of the notes redeemed based on the following redemption schedule:

July 1, 2014 to June 30, 2015	104.625%
July 1, 2015 to June 30, 2016	102.313%
July 1, 2016 and thereafter	100.000%

If the Company experiences a change of control under certain circumstances, the Company must offer to repurchase all of the notes at a price equal to 101.000% of their principal amount, plus accrued and unpaid interest, if any, to the repurchase date.

The 9 ¼% Notes contain customary affirmative and negative covenants, which among other things, limit the Company's ability to incur additional debt, create liens, pay dividends, effect transactions with its affiliates, sell assets, pay subordinated debt, merge, consolidate, enter into acquisitions and effect sale leaseback transactions.

On December 31, 2014, the Company entered into an Amended and Restated Loan Agreement (the ABL Agreement), by and among the Company, the borrowing subsidiaries signatory thereto, the guarantying subsidiaries signatory thereto, the lenders party thereto, and Bank of America, N.A., as agent for the lenders (ABL Agent). The ABL Agreement amends, restates, and replaces in its entirety the Loan and Security Agreement, dated as of June 28, 2010 (as previously amended, the Prior ABL Agreement), by and among the Company and certain borrowing subsidiaries as borrowers, certain guarantying subsidiaries as guarantors, certain financial institutions party thereto from time to time as lenders, and ABL Agent as agent for the lenders.

The ABL Agreement amends and restates the Prior ABL Agreement to, among other things, change the maturity date of the 2010 Revolving Facility from December 29, 2014 to the earlier to occur of (a) June 3, 2019, (b) November 16, 2016, if, as of such date, (i) Company's 9¼% Notes have not been repaid in full or refinanced on terms reasonably satisfactory to ABL Agent (including a maturity date no earlier than December 3, 2019) and (ii) the Term Loan Facility has not been repaid in full or the maturity date has not been extended to a date that is no earlier than September 3, 2019, and (c) April 1, 2017 if, as of such date, the Company's 9¼% Notes have not been repaid in full or refinanced on terms reasonably satisfactory to ABL Agent (including a maturity date no earlier than December 3, 2019).

Upon the occurrence of certain events, the Company may request the 2010 Revolving Facility to be increased by an aggregate amount not to exceed $25.0 million. Availability under the 2010 Revolving Facility is subject to a borrowing base of 85% of eligible net accounts receivable. Borrowings under the ABL bear interest at a rate equal

(continued)

to, at the Company's option, either (a) LIBOR plus an applicable margin or (b) Base Rate, as defined, plus an applicable margin. Subsequent to the most recent amendment and restatement ABL Amendment, the applicable margin in effect for borrowings under the 2010 Revolving Facility was reduced from 2.00% to 0.50% with respect to base rate borrowings and from 3.00% to 1.50% with respect to LIBOR borrowings, or reduced from a maximum of 2.50% to 1.00% with respect to base rate borrowings and reduced from a maximum of 3.50% to 2.00% for LIBOR borrowings, subject to the Company's fixed charge coverage ratio. In addition to paying interest on outstanding principal, the Company is required to pay a commitment fee to the lenders under the 2010 Revolving Facility in respect of the unutilized commitments thereunder. Subsequent to the most recent amendment and restatement of the ABL Amendment, based on the average facility usage for the most recently ended calendar month, the commitment fee was reduced from a range of 0.50% 0.75% to a range of 0.25% to 0.375% per annum. The Company must also pay customary letter of credit fees.

At December 31, 2014, the Company had $5.0 million outstanding balance due under the 2010 Revolving Facility. At December 31, 2014, the Company had availability under the 2010 Revolving Facility of $71.0 million, net of a $5.0 million outstanding balance due and $5.7 million outstanding letters of credit. The outstanding letters of credit are primarily used as collateral under the Company's workers' compensation programs.

Term Loan Facility

On December 31, 2014, the Company entered into a Credit Agreement (the "Term Loan Credit Agreement"), by and among the Company, as borrower, the Parent, as a guarantor, Credit Suisse AG, Cayman Islands Branch, as administrative agent, and certain other lenders from time to time party thereto.

The Term Loan Credit Agreement establishes a new senior secured term loan facility consisting of a $100,000,000 seven-year term loan (the "Term Loan Facility").The per annum interest rates applicable to borrowings under the Term Loan Facility are periodically determined at the Company's election as either (a) the LIBO Rate (as defined in the Term Loan Credit Agreement) plus 4.25% or (b) the Base Rate (as defined in the Term Loan Credit Agreement) plus 3.25%. The interest rate as of December 31, 2014 was 5.25%.

The Term Loan Facility is to be repaid in equal quarterly principal payments of $250,000, with the balance to be paid at maturity. The maturity date applicable to borrowings under the Term Loan Facility is the earlier to occur of (a) December 31, 2021, and (b) February 16, 2017, if, as of such date, the $9^1/_4$% Notes have not been refinanced in full with certain permitted debt. The Term Loan Facility is generally subject to mandatory prepayment in amounts equal to: (a) 100% of the net cash proceeds received from certain asset sales (including insurance recoveries and condemnation events), subject to reinvestment provisions and customary exceptions; (b) 100% of the net cash proceeds from the issuance of new debt (other than certain permitted debt); and (c) 50% of the Company's Excess Cash Flow (as defined in the Term Loan Credit Agreement), with step-downs to (i) 25% and (ii) 0% based on the Secured Net Leverage Ratio (as defined in the Term Loan Credit Agreement).

The Company's obligations under the Term Loan Facility are unconditionally guaranteed by all of the Company's material domestic wholly-owned subsidiaries (other than captive insurance subsidiaries, unrestricted subsidiaries, and certain other subsidiaries identified as excluded subsidiaries in the Term Loan Credit Agreement), provided that a guarantor subsidiary may be released if certain conditions are met. The Company's obligations under the Term Loan Facility are secured by a substantial portion of its assets as well as the assets of its subsidiaries. The Term Loan Credit Agreement contains other terms and conditions that are customary in agreements used in connection with similar transactions.

(continued)

The proceeds of the Term Loan Facility primarily were used to finance the December 31, 2014 acquisition of a controlling ownership interest in Carolina Pines Regional Medical Center, a 116-bed acute care facility located in Hartsville, South Carolina through the acquisition of all of the equity interests in Hartsville Medical Group, LLC and substantially all of the equity interests in Hartsville, LLC (formerly Hartsville HMA, LLC), each a South Carolina limited liability company.

Debt Covenants

The indenture governing the $9^1/_4$% Notes and Term Loan Facility contains a number of covenants that among other things, restrict, subject to certain exceptions, our ability and the ability of the Company's subsidiaries, to sell assets, incur additional indebtedness or issue preferred stock, pay dividends and distributions or repurchase our capital stock, create liens on assets, make investments, engage in mergers or consolidations, and engage in certain transactions with affiliates. At December 31, 2014, the Company was in compliance with all debt covenants for the $9^1/_4$% Notes and Term Loan Facility that were subject to testing at that date.

The ABL Agreement contains a number of covenants, including the requirement that the Company's fixed charge coverage ratio (as defined therein) cannot be less than 1.10 to 1.00 at the end of any measurement period. At December 31, 2014, the Company was in compliance with all debt covenants contained in the ABL Agreement that were subject to testing at that date.

6. Cumulative Redeemable Preferred Stock

The Company's certificate of incorporation authorizes the issuance of up to 300,000 shares of nonvoting Cumulative Redeemable Preferred Stock (Preferred Stock), with a par value of $.01 per share. Payment in kind dividends on each share of the Preferred Stock issued prior to April 24, 2006, accrue at a rate of 8% per annum on the liquidation value of $1,000 per share plus all accumulated and unpaid dividends thereon. Payment in kind dividends on each share of the Preferred Stock issued after April 24, 2006, accrue at a rate of 7% per annum on the liquidation value of $1,000 per share plus all accumulated and unpaid dividends thereon.

Upon any liquidation, dissolution or winding up of the Company, each holder of Preferred Stock shall be entitled to be paid, before any distribution or payment is made on any junior securities, an amount equal to the aggregate liquidation value of all such shares held by such holder, plus all accrued and unpaid dividends thereon.

For a period of five business days following the execution date of the first firm commitment underwriting agreement in connection with a public offering, each share of Preferred Stock shall be convertible at the option of the holder thereof, into a number of shares of common stock computed by dividing the liquidation value of such shares of Preferred Stock (including accumulated and unpaid dividends thereon) by the price at which the common stock is to be offered to the public pursuant to the initial public offering. The Preferred Stock is otherwise automatically converted upon consummation of the Company's initial public offering into a number of shares of common stock using the same conversion formula as that of the optional conversion.

The Company may at any time, after delivery of not less than twenty days prior written notice to the holders of the Preferred Stock, redeem all or any portion of the shares of Preferred Stock then outstanding. Upon any such redemption, the Company shall pay a price per share equal to the liquidation value plus all accrued and unpaid dividends thereon. The holder or holders of a majority of the Preferred Stock outstanding may require the Company to redeem all or any portion of the Preferred Stock owned by such holders at a price per share equal to the liquidation value plus all accrued and unpaid dividends thereon in the event of a change in ownership.

(continued)

Accrued dividends on the Preferred Stock totaled approximately $134.0 million at December 31, 2013 and are included in the liquidation value of the Preferred Stock on the accompanying consolidated balance sheets. In April 2014, the Company entered into an equity restructuring that included the conversion of $206.7 million preferred stock outstanding to a net 686.3 million shares of the Company’s common stock and the forgiveness of $140.1 million of previously accrued dividends accreted as of March 31, 2014.

7. Common Stock

The Company’s certificate of incorporation authorizes the issuance of up to 1.3 billion shares of Common Stock (Common Stock), with a par value of $.01 per share. Holders of the Company’s Common Stock are entitled to one vote for each share held of record on all matters on which stockholders may vote.

There are no preemptive, conversion, redemption or sinking fund provisions applicable to the Company’s Common Stock. In the event of liquidation, dissolution or winding up, holders of Common Stock are entitled to share ratably in the assets available for distribution, subject to any prior rights of any holders of Preferred Stock then outstanding. Delaware law prohibits the Company from paying any dividends unless it has capital surplus or net profits available for this purpose. In addition, the Company’s Credit Agreement, as amended, imposes restrictions on its ability to pay dividends.

On May 4, 2005, as part of the initial capitalization of the Company, the Company issued Common Stock to three private equity funds managed by GTCR Golder Rauner LLC and four senior hospital management executives. The shares initially issued to senior executive management consisted of both vested and unvested shares. All vested shares were immediately vested upon purchase by the senior executive. Unvested shares vest equally over a five year period, provided that the senior executive is employed by the Company or any of its subsidiaries. All unvested shares would otherwise become 100% vested in the event of the sale of the Company.

In the event that any senior executive holding shares of the Company’s Common Stock ceases to be employed by the Company, such shares held by the senior executive will be subject to repurchase, at the Company’s option. The unvested shares would be subject to repurchase at the lesser of the senior executive’s original cost or the fair market value at the date of repurchase and any vested shares would be subject to repurchase at fair market value at the date of repurchase.

The Company has from time to time issued shares of the Company’s Common Stock to senior executives in return for full recourse promissory notes. At December 31, 2013, approximately $0.2 million in subscription notes was outstanding from Company senior executives.

The promissory notes executed in connection with the issuance of the Company’s Common Stock are reflected as subscription notes receivable in the accompanying consolidated balance sheet.

In April 2014, the Company entered into an equity restructuring that included the conversion of $206.7 million preferred stock outstanding to a net 686.3 million shares of the Company’s common stock and the forgiveness of $140.1 million of previously accrued dividends accreted as of March 31, 2014.

8. Stock Based Compensation

The Company issues stock-based awards to the Company’s employees from time to time, including stock options and other stock-based awards in accordance with the Company’s various board-approved compensation plans. In April 2014, the Company adopted the 2014 Stock Option Plan, which effectively replaced the 2006 Stock Option

(continued)

Plan. The Company incurred non-cash stock-based compensation expense of $4.1 million and $0.8 million during the years ended December 31, 2014 and 2013, respectively. The Company incurred additional stock-based compensation of $1.8 million which represented cash payments to partially reimburse employees for tax-related liabilities. Stock-based compensation expense is included in salaries and benefits in the accompanying consolidated statements of operations.

Restricted Shares

The Company's restricted share awards, granted to certain of the Company's employees, generally vest between a one to five-year term. As of December 31, 2014, approximately 320,000 restricted share awards issued by the Parent remained unvested. As of December 31, 2014, there was approximately $0.5 million of estimated unrecognized compensation cost related to these outstanding restricted share awards. These costs are expected to be recognized by the Company over approximately 3.2 years.

During the year ended December 31, 2014, the Company issued to the Company's employees approximately 18,203,000 restricted shares, in connection with the Company's equity restructuring, as previously described in *Note 1*. The 18,203,000 restricted shares vested immediately and included a cash payment of $1.8 million to partially reimburse employees for tax-related liabilities associated with the award. The Company considered the cash-based incentive payment to be stock-based compensation that is included in salaries and benefits in the accompanying consolidated statements of operations.

Restricted share awards outstanding and changes during each of the years in the two-year period prior to December 31, 2014, were as follows:

	Shares	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2012	1,330,935	$ 3.20
Granted	20,250	3.80
Forfeited	(73,540)	3.54
Outstanding at December 31, 2013	1,277,645	3.13
Granted	18,453,143	0.16
Forfeited	(413,658)	0.94
Outstanding at December 31, 2014	19,317,130	$ 0.38

Stock Options

The 2014 Stock Option Plan permits the Company's board of directors to issue approximately 90.5 million stock options to the Company's employees. During the year ended December 31, 2014, the Company issued to the Company's employees 89,838,000 stock options under the 2014 Stock Option Plan. As of December 31, 2014, approximately 677,000 options have been forfeited and the Company has the ability to issue approximately 1,366,000 additional stock based awards under the 2014 Stock Option Plan. The stock options vest over five years and have an exercise price of $0.16 per share. The Black-Sholes-Merton valuation model indicated that the fair

(continued)

value of options granted during the year ended December 31, 2014, at $0.06 per option. As of December 31, 2014, no options were vested, and the Company expects approximately 74.4 million options to vest over the life of the awards. As of December 31, 2014, there was approximately $3.9 million of estimated unrecognized compensation cost related to outstanding stock options. These costs are expected to be recognized over approximately 4.3 years.

Options outstanding and exercisable under the 2014 Stock Option Plan as of December 31, 2014, and changes during each of the years in the three-year period prior to December 31, 2014, were as follows (in thousands, except share and per share data):

	Options	Option Price Per Share	Weighted-Average Exercise Price	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2013	—	$ —	$ —	
Granted	89,838,410	0.16	0.16	$ 0.06
Exercised	—	—	—	
Vested	—	—	—	
Forfeited and cancelled	(677,169)	0.16	0.16	
Outstanding at December 31, 2014	89,161,241	$ 0.16	$ 0.16	
Exercisable at December 31, 2014	—	$ —	$ —	

The Company records stock-based employee compensation for options granted using a Black-Scholes-Merton model. The following table sets forth the range of assumptions the Company has utilized in the Black-Scholes-Merton model.

Risk-free interest rate	2.14% to 2.31%
Dividend yield	0%
Volatility (annual)	30.0% to 35.0%
Expected option life	6.5 years

For stock-based awards included in the Black-Scholes-Merton valuation model, the Company uses historical stock price information of certain peer group companies for a period of time equal to the expected award life period to determine estimated volatility. The Company determined the expected life of the stock awards by averaging the contractual life of the awards and the vesting period of the awards. The estimated fair value of awards are amortized to expense on a straight-line basis over the awards' vesting period. Compensation cost related to stock-based awards will be adjusted for future changes in estimated forfeitures and actual results of performance measures.

(continued)

9. Income Taxes

The provision for income taxes from continuing operations consists of the following (in millions):

	Year Ended December 31 2014	2013
Current:		
Federal	$ —	$ —
State	1.6	0.9
Total current	1.6	0.9
Deferred:		
Federal	(0.5)	(5.2)
State	(1.7)	(2.0)
Total deferred	(2.2)	(7.2)
Increase in valuation allowance	5.3	10.3
Total	$ 4.7	$ 4.0

A reconciliation of the statutory federal income tax rate to the Company's effective income tax rate from continuing operations for the years ended December 31, 2014 and 2013, is as follows (dollars in millions):

	2014		2013	
Federal statutory rate	$(0.1)	34.0%	$(5.0)	34.0%
State income taxes, net of federal income tax benefits	(0.1)	31.6	(0.7)	4.4
Permanent Items	0.3	(121.5)	0.2	(1.3)
Actualization	—	—	(0.2)	1.2
Non-controlling interests	(0.7)	365.7	(0.2)	1.2
Valuation allowance	5.3	(2768.0)	9.9	(66.7)
Effective income tax rate	$ 4.7	(2458.2)%	$ 4.0	(27.2)%

(continued)

Deferred income taxes result from temporary differences in the recognition of assets, liabilities, revenues and expenses for financial accounting and tax purposes. Sources of these differences and the related tax effects are as follows (in millions):

	December 31	
	2014	**2013**
Deferred income tax liabilities:		
Depreciation and amortization	$ 32.0	$ 33.1
Joint ventures	—	0.7
Other	0.1	0.3
Total deferred tax liabilities	32.1	34.1
Deferred income tax assets:		
Impaired assets	3.9	2.7
Joint ventures	1.0	—
Organization costs	0.3	0.3
Professional liability claims	4.6	2.8
Accrued paid time off	2.3	2.2
Employee medical claims	0.8	0.8
Net operating losses	63.4	61.2
AMT credit	0.1	0.1
Employment credit	4.3	4.0
Accrued expenses	2.9	2.8
Charitable contributions	0.8	1.0
Provision for doubtful accounts	4.7	3.7
Other	0.2	0.3
Total deferred income tax assets	89.3	81.9
Valuation allowance	(73.0)	(62.7)
Net deferred income tax assets	16.3	19.2
Net deferred income tax liabilities	$(15.8)	$(14.9)

Because of uncertainties related to the realization of certain deferred tax assets, the Company recorded a valuation allowance of approximately $73.0 million and $62.7 million as of December 31, 2014 and 2013, respectively.

The Company has federal and state net operating loss carryforwards of approximately $135 million and $251 million, respectively at December 31, 2014, which will begin to expire in 2028 and 2020. The Company also has Federal employment credits which will begin to expire in 2028. The Company is not currently under any federal or state tax examination. The Company reflected a tax benefit of $2.2 million related to discontinued operations. This tax benefit is reflected in the net loss from discontinued operations.

The Company has adopted the provisions of FASB authoritative guidance regarding income tax uncertainties. Upon adoption of these provisions, the Company did not record a liability for uncertain tax deductions. At December 31, 2014, the liability for unrecognized tax benefits remains at zero. The Company's policy is to classify interest paid on an underpayment of income tax and related penalties as part of income tax expense

(continued)

10. Commitments and Contingencies

Employment Agreements

The Company has executed senior management agreements with six of its senior executive officers. The agreements provide for minimum salary levels, adjusted based upon individual and Company performance criteria, as well as for participation in bonus plans which are payable if specific management goals are met. The agreements also provide for severance benefits, if certain criteria are met, for a period of up to two years. The senior management agreements remain in place for each of the senior executive officers during their period of employment with the Company or any of its subsidiaries.

Legal Proceedings and General Liability Claims

The Company is, from time to time, subject to claims and suits arising in the ordinary course of business, including claims for damages for personal injuries, medical malpractice, breach of management contracts, wrongful restriction of or interference with physicians' staff privileges and employment related claims. In certain of these actions, plaintiffs request punitive or other damages against the Company which may not be covered by insurance. The Company is currently not a party to any proceeding which, in management's opinion, would have a material adverse effect on the Company's business, financial condition or results of operations.

11. Leases

The Company leases various buildings and equipment under operating lease agreements. The leases expire at various times and have various renewal options.

The Company has certain leases that meet the lease capitalization criteria in accordance with FASB authoritative guidance. In accordance with the FASB authoritative guidance for leases, the capital leases have been recorded as an asset and liability at the lower of the net present value of the minimum lease payments or the fair value at the inception of the lease. The interest rate used in computing the net present value of the lease payments are based on either the Company's incremental borrowing rate at the inception of the lease or the interest rate implicit in the lease.

Operating lease rental expense relating primarily to the rental of buildings and equipment for the years ended December 31, 2014 and 2013 was approximately $13.6 million and $13.0 million, respectively.

(continued)

Future minimum rental commitments under non-cancelable leases with an initial term in excess of one year at December 31, 2014, consist of the following (in millions):

	Capital Leases	Operating Leases
2015	$ 6.1	$ 7.8
2016	5.9	6.1
2017	6.0	5.3
2018	1.3	4.8
2019	0.0	3.0
Thereafter	0.0	9.5
Total minimum lease payments	19.3	$ 36.5
Less: interest portion (interest rates from 3.8% to 8.0%)	(2.3)	
Long-term obligation under capital leases	$ 17.0	

12. Related-Party Transactions

On May 4, 2005, the Company executed a Professional Services Agreement (PSA) with GTCR Golder Rauner II, LLC (GTCR), whereby GTCR provides ongoing financial and management consulting to the Company until all investment funds managed by GTCR cease to own at least 10% of the collective Preferred Stock and Common Stock of the Parent. Under the PSA, the Company shall pay GTCR a placement fee of up to 1% of any debt financing in which GTCR is involved in raising the debt financing.

Under the PSA, the Company shall pay GTCR an annual management fee equal to $0.2 million upon the Company's achievement of EBITDA (as defined in the PSA) of $30 million. In each of 2014 and 2013, the Company paid GTCR $0.2 million in management fees under the PSA.

13. Retirement Plan

The Company has a defined contribution plan, effective December 1, 2005, covering all employees who have completed six months of service, as defined, and are age 18 or older. Participants may contribute up to 99% of their annual compensation, as defined, up to a maximum of $17,500 for participants under the age of 50 or $22,500 for participants aged 50 years or older. The Company did not authorize an employer contribution for 2013. For 2014, the Company authorized an employer contribution of 25% of the first 4% of employee contributions (up to 1% of the individual participant's annual compensation, as defined). The Company has accrued for the employer contributions of $1.2 million as of December 31, 2014, which is included in other accrued liabilities on the consolidated balance sheet.

(continued)

14. Subsequent Events

The Company evaluated all events or transactions that occurred after December 31, 2014 through March 27, 2015, the date the consolidated financial statements were available to be issued.

Effective January 1, 2015, the Company acquired controlling ownership interest in Carolina Pines Regional Medical Center, a 116-bed acute care facility located in Hartsville, South Carolina through the acquisition of all of the equity interests in Hartsville Medical Group, LLC and substantially all of the equity interests in Hartsville, LLC (formerly Hartsville HMA, LLC), each a South Carolina limited liability company. The cash purchase price was $67.3 million plus $6.5 million for working capital and was funded by a $100 million Term Loan Facility and resulted in goodwill of approximately $5.9 million.

The fair values of assets acquired and liabilities assumed at the acquisition date are as follows (in millions):

Accounts receivable, net	$13.0
Prepaids and other	0.4
Inventories	2.3
Property and equipment	57.4
Intangibles	1.2
Goodwill	5.9
Total assets acquired	80.2
Accounts payable	1.7
Salaries and benefits payable	2.4
Accrued expenses	1.1
Non-controlling interest	1.2
Total liabilities assumed	6.4
Net assets acquired	$73.8

The preliminary values of the consideration transferred, assets acquired and liabilities assumed, including the related tax effects, are subject to receipt of a final valuation a final working capital adjustments.

Exhibit 99.2

Capella Holdings, Inc.

Condensed Consolidated Balance Sheets

(In Millions, Except for Share Amounts)

	December 31, 2014(a)	June 30, 2015 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 29.2	$ 55.2
Restricted cash	73.9	—
Investments	20.3	21.3
Accounts receivable, net of allowance for doubtful accounts of $84.4 million at December 31, 2014 and June 30, 2015	120.9	115.9
Inventories	23.7	24.3
Prepaid expenses and other current assets	5.0	8.2
Other receivables	6.0	6.4
Assets held for sale	33.7	64.1
Deferred tax assets	2.4	1.8
Total current assets	315.1	297.2
Property and equipment, net	409.6	413.6
Goodwill	127.9	128.8
Intangible assets, net	10.9	11.7
Other assets, net	12.3	10.9
Total assets	$ 875.8	$ 862.2
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable	$ 30.0	$ 28.7
Salaries and benefits payable	27.5	22.3
Accrued interest	23.3	23.2
Other accrued liabilities	24.9	27.9
Current portion of long-term debt	6.0	6.6
Revolving facility	5.0	—
Liabilities held for sale	3.6	9.1
Total current liabilities	120.3	117.8
Long-term debt	607.8	606.0
Deferred income taxes	18.2	15.3
Other liabilities	30.0	31.0
Redeemable noncontrolling interests	11.7	11.6
Stockholders' deficit:		
Common stock, $0.01 par value; 1,300,000,000 shares authorized; 766,632,582 shares issued and outstanding at and December 31, 2014 and June 30, 2015	7.5	7.5
Capital in excess of par value	214.5	215.0
Accumulated other comprehensive income	0.9	0.7
Retained deficit	(135.1)	(142.7)
Total stockholders' deficit	87.8	80.5
Total liabilities and stockholders' deficit	$ 875.8	$ 862.2

(a) Derived from audited consolidated financial statements

See accompanying notes.

Capella Holdings, Inc.

Condensed Consolidated Statements of Operations (Unaudited)

(In Millions)

	Six Months ended June 30, 2014	Six Months ended June 30, 2015
Revenue before provision for bad debts	$384.2	$459.2
Provision for bad debts	(36.2)	(43.6)
Revenue	348.0	415.6
Salaries and benefits	165.3	194.4
Supplies	58.4	69.7
Other operating expenses	83.1	96.0
Management fee to related-party	0.1	0.1
Interest, net	27.6	28.5
Impairment charges	—	10.9
Depreciation and amortization	21.1	22.4
Loss from continuing operations before income taxes	(7.6)	(6.4)
Income tax (benefit) expense	1.6	(1.8)
Loss from continuing operations	(9.2)	(4.6)
Loss from discontinued operations, net of tax	(3.0)	(2.3)
Net loss	(12.2)	(6.9)
Less net income attributable to non-controlling interests	0.7	0.7
Net loss attributable to Capella Holdings, Inc.	$ (12.9)	$ (7.6)

See accompanying notes.

Capella Holdings, Inc.

Condensed Consolidated Statement of Stockholders' Deficit

(In Millions, Except for Share Amounts)

	Common Stock		Subscription Notes	Capital in Excess of	Accumulated Other Comprehensive	Retained	Total Stockholders'
	Shares	Amount	Receivable	Par Value	Income	Deficit	Deficit
Balance at December 31, 2014 (a)	766,632,582	$ 7.5	$ 0.0	$ 214.5	$ 0.9	$(135.1)	$ 87.8
Restricted stock vesting (unaudited)	—	—	—	0.7	—	—	0.7
Common stock repurchase (unaudited)	—	—	—	(0.2)	—	—	(0.2)
Change in unrealized holding gains on investments in securities, net of tax (unaudited)	—	—	—	—	(0.2)	—	(0.2)
Net loss (unaudited)	—	—	—	—	—	(7.6)	(7.6)
Balance at June 30, 2015 (unaudited)	766,632,582	$ 7.5	$ 0.0	$ 215.0	$ 0.7	$(142.7)	$ 80.5

(a) Derived from audited consolidated financial statements

See accompanying notes.

Capella Holdings, Inc.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In Millions)

	Six Months ended June 30, 2014	Six Months ended June 30, 2015
Operating activities		
Net loss	(12.2)	$ (6.9)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss from discontinued operations	3.0	2.3
Depreciation and amortization	21.1	22.4
Amortization of loan costs and debt discount	2.0	2.0
Provision for bad debts	36.2	43.6
Deferred income taxes	1.6	(2.2)
Stock-based compensation	3.3	0.7
Impairment charges	—	10.9
Changes in operating assets and liabilities, net of effect of divestitures:	(39.7)	(47.3)
Net cash provided by operating activities – continuing operations	15.3	25.5
Net cash used in operating activities – discontinued operations	(5.1)	(4.2)
Net cash provided by operating activities	10.2	21.3
Investing activities		
Purchases of investments	(0.2)	(1.2)
Purchases of property and equipment, net	(9.7)	(11.4)
Proceeds from disposition of healthcare business	11.2	27.8
Net cash provided by investing activities – continuing operations	1.3	15.2
Net cash used in investing activities – discontinued operations	(0.5)	—
Net cash provided by investing activities	0.8	15.2
Financing activities		
Payments on capital leases and other obligations	(7.5)	(8.1)
Repurchase of common stock	(0.1)	(0.1)
Payment of preferred to common conversion costs	(0.4)	—
Payments of financing costs and fees	(2.0)	(1.0)
Distributions to non-controlling interests	(0.5)	(1.3)
Repurchase of noncontrolling interests	0.1	—
Net cash used in financing activities – continuing operations	(10.4)	(10.5)
Net cash used in financing activities – discontinued operations	—	—
Net cash used in financing activities	(10.4)	(10.5)
Change in cash and cash equivalents	0.6	26.0
Cash and cash equivalents at beginning of year	26.5	29.2
Cash and cash equivalents at end of year	$ 27.1	$ 55.2
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 25.5	$ 26.7
Cash paid for taxes	$ 0.7	$ 1.0
Supplemental disclosure of non-cash information		
Capital lease obligations recorded	$ —	$ 2.5

See accompanying notes.

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Capella Holdings, Inc. is a Delaware corporation and owns 100% of the outstanding common stock of Capella Healthcare, Inc. Auriga Insurance Group (Auriga), a wholly owned subsidiary of Capella Holdings, Inc., provides healthcare professional liability, commercial general liability insurance, and employee medical claim excess insurance coverage to the hospitals owned by Capella Healthcare, Inc. Capella Holdings, Inc. and subsidiaries are collectively referred to as the "Company." The Company operates hospitals and ancillary healthcare facilities in non-urban communities in the United States. The Company was formed on April 15, 2005 (date of inception) by and between GTCR Fund VIII, L.P., GTCR Fund VIII/B, L.P., GTCR Co-Invest II, L.P. (all investment funds managed by GTCR Golder Rauner LLC) and four senior hospital management executives and initially was capitalized on May 4, 2005.

At June 30, 2015, as part of continuing operations, the Company operated ten general acute care hospitals and related ancillary healthcare facilities with a total of 1,425 licensed beds. Unless noted otherwise, discussions in these notes pertain to the Company's continuing operations, which exclude the results of those facilities that have been previously disposed or are included in assets and liabilities held for sale.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, and disclosures considered necessary for a fair presentation have been included. The preparation of the accompanying condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 2014.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and all subsidiaries and entities controlled by the Company through the Company's direct or indirect ownership of a majority interest and exclusive rights granted to the Company as the sole general partner or managing member of such entities. All intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation.

Recently Issued Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board issued a final, converged, principles-based standard on revenue recognition. Companies across all industries will use a five-step model to recognize revenue from customer contracts. The new standard, which replaces nearly all existing GAAP and International Financial Reporting Standards revenue recognition guidance, will require significant management judgment in addition to changing the way many companies recognize revenue in their financial statements. The standard was originally scheduled to become effective for public entities for annual and interim periods beginning after December 15, 2016. Early adoption was originally not to be permitted under GAAP. During April 2015, the FASB proposed a deferral of the effective date of the new revenue standard by one year, but would permit entities to adopt one year earlier if they choose (i.e., the original effective date). The FASB decided, based on its outreach to various stakeholders and forthcoming exposure drafts, which amend the new revenue standard, that a deferral may be necessary to provide adequate time to effectively implement the new standard. We are continuing to evaluate the effects the adoption of this standard will have on our financial statements and financial disclosures.

In February 2015, the FASB issued Accounting Standards Update 2015-02 *Consolidation* ("ASU 2015-2"). ASU 2015-02 includes amendments that are intended to improve targeted areas of consolidation for legal entities including reducing the number of consolidation models from four to two and simplifying the FASB Accounting Standards Codification. The provisions of ASU 2015-02 are effective for annual reporting periods beginning after December 15, 2015. The amendments may be applied retrospectively in previously issued financial statements for one or more years with a cumulative effect adjustment to retained earnings as of the beginning of the first year restated. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of ASU 2015-02 will have on the Company's consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"), which requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. The guidance in the new standard is limited to the presentation of debt issuance costs. ASU 2015-03 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted, and the new guidance should be applied retrospectively. The Company does not expect the adoption of ASU 2015-03 will have an impact on its results of operations or cash flows.

2. GENERAL AND ADMINISTRATIVE COSTS

The majority of the Company's expenses are "cost of revenue" items. Costs that could be classified as "general and administrative" by the Company would include its corporate overhead costs, which were $16.1 million and $10.4 million for the six months ended June 30, 2014 and June 30, 2015, respectively. Stock-based compensation expense is included in salaries and benefits in the accompanying condensed consolidated statements of operations and within the aforementioned general and administrative costs. During the six months ended June 30, 2014 and 2015, the Company incurred non-cash stock-based compensation expense of $3.3 million and $0.7 million, respectively. Business development and refinancing related costs, also included within the aforementioned general and administrative costs, included in other operating expenses on the condensed consolidated statements of operations, were $1.0 million and $0.9 million for the six months ended June 30, 2014 and 2015, respectively.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company applies the provisions of FASB authoritative guidance regarding fair value measurements, which provide a single definition of fair value, establishes a framework for measuring fair value, and expands disclosures concerning fair value measurements. The Company applies these provisions to the valuation and disclosure of certain financial instruments. This authoritative guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: (i) Level 1, which is defined as quoted prices in active markets that can be accessed at the measurement date; (ii) Level 2, which is defined as inputs other than quoted prices in active markets that are observable, either directly or indirectly; and (iii) Level 3, which is defined as unobservable inputs resulting from the existence of little or no market data, therefore potentially requiring an entity to develop its own assumptions. The Company's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances that caused the transfer.

The carrying amounts of the Company's short-term financial instruments, including cash, accounts receivable, inventories, prepaid expenses and other current assets, other receivables, accounts payable, salaries and benefits payable, accrued interest and accrued liabilities are reflected in the accompanying condensed consolidated financial statements at amounts that approximate fair value because of the short-term nature of these instruments. The fair value of the Company's capital leases, term loan facility and other long-term financing obligations also approximate carrying value as they bear interest at current market rates. The carrying amount of the Company's 9 ¼% Senior Unsecured Notes due 2017 (the "9 ¼% Notes") was $500.0 million at June 30, 2015 as disclosed in Note 11. The estimated fair value of the 9 ¼% Notes at June 30, 2015 was approximately $513.1 million based on the average bid and ask price as determined using published rates and is categorized as Level 2 within the fair value hierarchy.

4. REVENUE RECOGNITION AND ACCOUNTS RECEIVABLE

The Company recognizes revenue before the provision for bad debts, including revenue from in-house patients and patients who have been discharged but not yet billed, in the period in which services are performed. Accounts receivable primarily consist of amounts due from third-party payors and patients. The Company's ability to collect outstanding receivables is critical to its results of operations and cash flows. The Company has entered into agreements with third-party payors, including government programs and managed care health plans, under which the Company is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates or discounts from established charges. Amounts the Company receives for treatment of patients covered by governmental programs, such as Medicare and Medicaid, and other third-party payors, such as health maintenance organizations, preferred provider organizations and other private insurers, are generally less than the Company's established billing rates. Accordingly, the revenues and accounts receivable reported in the accompanying unaudited condensed consolidated financial statements are recorded at the amount expected to be received.

The following table sets forth the percentages of revenues before the provision for bad debts by payor for the six months ended June 30, 2014 and 2015:

	Six Months ended June 30, 2014	Six Months ended June 30, 2015
Medicare(1)	40.5%	40.7%
Medicaid(1)	17.8	16.8
Managed Care and other(2)	34.6	35.8
Self-Pay	7.1	6.7
Total	100.0%	100.0%

(1) Includes revenues received under managed Medicare or managed Medicaid programs.
(2) Includes the health insurance exchanges, beginning with the first quarter of 2014.

The Company derives a significant portion of its revenue before the provision for bad debts from Medicare, Medicaid and other payors that receive discounts from its standard charges. The Company must estimate the total amount of these discounts to prepare its consolidated financial statements. The Medicare and Medicaid regulations and various managed care contracts under which these discounts must be calculated are complex and are subject to interpretation and adjustment. The Company estimates the allowance for contractual discounts on a payor-specific basis given its interpretation of the applicable regulations or contract terms. These interpretations sometimes result in payments that differ from the Company's estimates. Additionally, updated regulations and contract renegotiations occur frequently, necessitating regular review and assessment of the estimation process by management. Changes in estimates related to the allowance for contractual discounts affect revenues reported in the accompanying unaudited condensed consolidated statements of operations.

Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined. Final determination of amounts earned under the Medicare and Medicaid programs often occurs subsequent to the year in which services are rendered because of audits by the programs, rights of appeal and the application of numerous technical provisions. There is at least a reasonable possibility that such estimates will change by a material amount in the near term. The net estimated third-party payor settlements receivable by the Company as of December 31, 2014 totaled \$0.1 million compared to \$0.9 million as of June 30, 2015, and are included in prepaid expenses and other current assets in the accompanying condensed consolidated balance sheets. For the six months ended June 30, 2014, the net adjustments to estimated cost report settlements resulted in an increase to revenues of \$2.0 million. For the six months ended June 30, 2015, the net adjustments to estimated cost report settlements resulted in an decrease to revenues \$1.9 million. The decrease is a result of the Company's receipt of a Notice of Program Reimbursement requesting a refund of \$2.8 million as a result of a retroactive change by CMS in the method used to calculate Medicare disproportionate share payments for certain adolescent psychiatric services provided at the facility. The Company plans to appeal this determination. The Company cannot predict the outcome of such appeal. The Company's management believes that adequate provisions have been made for adjustments that may result from final determination of amounts earned under these programs.

Provision for Bad Debts and Allowance for Doubtful Accounts

To provide for accounts receivable that could become uncollectible in the future, the Company establishes an allowance for doubtful accounts to reduce the carrying value of such receivables to their estimated net realizable value. The primary uncertainty of such allowance lies with uninsured patient receivables and deductibles, co-payments or other amounts due from individual patients.

Additions to the allowance for doubtful accounts are made by means of the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts and subsequent recoveries are added. The amount of the provision for bad debts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in federal, state, and private employer healthcare coverage and other collection indicators. The provision for bad debts and the allowance for doubtful accounts relate primarily to "uninsured" amounts (including copayment and deductible amounts from patients who have healthcare coverage) due directly from patients. Accounts are written off when all reasonable internal and external collection efforts have been performed. The Company considers the return of an account from the primary external collection agency to be the culmination of its reasonable collection efforts and the timing basis for writing off the account balance. Accounts written off are based upon specific identification and the write-off process requires a write-off adjustment entry to the patient accounting system. Management relies on the results of detailed reviews of historical write-offs and recoveries (the hindsight analysis) as one source of information to utilize in estimating the collectability of the Company's accounts receivable.

The Company performs the hindsight analysis on a quarterly basis for all hospitals, generally utilizing rolling twelve-month accounts receivable collection, write-off, and recovery data. The Company supplements its hindsight analysis with other analytical tools, including, but not limited to, revenue days in accounts receivable, historical cash collections experience and revenue trends by payor classification. Adverse changes in general economic conditions, billing and collections operations, payor mix, or trends in federal or state governmental healthcare coverage could affect the Company's collection of accounts receivable, cash flows and results of operations.

A summary of activity in the Company's allowance for doubtful accounts is as follows (in millions):

	Beginning Balance at January 1, 2015	Additions Charged to provision for bad debts	Accounts Written Off, Net of Recoveries	Balance at End of Period
Six months ended June 30, 2015	$ 84.4	$ 43.6	$ (43.6)	$ 84.4

The allowance for doubtful accounts was $84.4 million as of December 31, 2014 and June 30, 2015. These balance as a percentage of accounts receivable net of contractual adjustments were 41.1% and 42.6% as of December 31, 2014 and June 30, 2015, respectively.

5. BUSINESS COMBINATIONS

Effective January 1, 2015, the Company acquired controlling ownership interest in Carolina Pines Regional Medical Center ("Carolina Pines"), a 116-bed acute care facility located in Hartsville, South Carolina, through the acquisition of all of the equity interests in Hartsville Medical Group, LLC and substantially all of the equity interests in Hartsville, LLC (formerly Hartsville HMA, LLC), each a South Carolina limited liability company. The cash purchase price, subject to final working capital adjustments, was $67.3 million plus $12.0 million for working capital and was funded by a $100 million, seven-year term loan facility (the "Term Loan Facility"). The transaction resulted in goodwill of approximately $11.0 million.

The fair values of assets acquired and liabilities assumed at the acquisition date are as follows (in millions):

Accounts receivable, net	$13.1
Prepaids and other	0.4
Inventories	2.4
Property and equipment	57.6
Intangibles	1.2
Goodwill	11.0
Total assets acquired	85.7
Accounts payable	1.7
Salaries and benefits payable	2.4
Accrued expenses	1.1
Non-controlling interest	1.2
Total liabilities assumed	6.4
Net assets acquired	$79.3

The preliminary values of the consideration transferred, assets acquired and liabilities assumed, including the related tax effects, are subject to receipt of a final valuation and final working capital adjustments.

Pro-Forma Information

Net revenues of approximately $49.6 million and income from continuing operations before income taxes of $2.6 million for Carolina Pines are included in the Company's consolidated statement of operations for the six months ended June 30, 2015. The following table provides certain pro-forma financial information for the Company as if this acquisition occurred as of January 1, 2014 (in millions):

	Six Months ended June 30,	
	2014	2015
Net Revenue	$391.9	$415.6
Income (loss) from continuing operations before income taxes	$ (4.4)	$ (8.4)

6. DIVESTITURES AND IMPAIRMENT CHARGES

At December 31, 2014, the Company committed to plans to sell certain of one of its facilities in Tennessee and one in Missouri. In connection with these planned divestures, the Company recognized an estimated loss on the planned sale totaling $15.9 million (including $5.8 million of goodwill) during the year ended December 31, 2014. The Company has presented the operating results, financial positions and cash flows as discontinued operations in the accompanying consolidated financial statements for all periods, and the related assets and liabilities are reflected as held for sale in the accompanying condensed consolidated financial statements.

On May 1, 2015, the Company completed the sale of Mineral Area Regional Medical Center, a 135 bed facility located in Farmington, Missouri. In connection with the planned divestiture, the Company recognized an estimated loss on the sale totaling $7.1 million during the year ended December 31, 2014, which was reduced for changes in net working capital of $1.7 million during the six months ended June 30, 2015. The Company has presented the operating results, financial positions and cash flows as discontinued operations in the accompanying condensed consolidated financial statements.

Revenues before the provision for bad debts and the loss reported in discontinued operations for the Company's discontinued operations for the six months ended June 30, 2014 and 2015, are as follows (in millions):

	Six Months ended June 30,	
	2014	2015
Revenues before the provision for bad debts from discontinued operations	$34.4	$19.4
Loss from discontinued operations		
Net loss from sale of healthcare business	(1.6)	(0.5)
Gain from held for sale adjustment	—	1.5
Loss from operations	(1.4)	(3.3)
Loss from discontinued operations, net of tax	$ (3.0)	$ (2.3)

In July, 2015, the Company entered into a definitive agreement regarding the sale of Stones River Hospital and three additional hospitals consisting of DeKalb Community Hospital, Highlands Medical Center, and River Park Hospital (collectively, the "Tennessee Facilities") all of which reside in the State of Tennessee. The sale closed effective August 1, 2015. Included in the accompanying unaudited condensed consolidated statements of operations is income before taxes attributable to DeKalb Community Hospital, Highlands Medical Center and River Park Hospital of $1.7 million and $1.5 million for the six months ended June 30 2014 and 2015, respectively. The assets and liabilities have been classified as held for sale in connection with the Tennessee Facilities of $61.9 million and $8.4 million, respectively.

In connection with the Company's entry into a definitive agreement to sell the Tennessee Facilities, the Company recognized an impairment charge of $10.9 million, during the six months ended June 30, 2015 for DeKalb Community Hospital, Highlands Medical Center and River Park Hospital. The impairment charge included write-down of property, equipment, allocated goodwill and certain other assets to their estimated fair values. Stones River Hospital was recognized as a discontinued operation and is included in the discontinued operations noted above.

The Company estimated the fair value of its assets and liabilities held for sale at June 30, 2015 at approximately $64.1 million and $9.1 million, respectively. The estimated fair value is based on the amount outlined in the executed purchase agreement and is categorized as Level 3 within the fair value hierarchy in accordance with Accounting Standards Codification 820-10, "Fair Value Measurements and Disclosures".

7. INVESTMENTS

Investments in fixed income securities are categorized as available-for-sale and reported in the accompanying consolidated balance sheets at their fair market value based on quoted prices obtained from an independent investment manager. The cost of fixed income securities is adjusted for amortization of premium or accretion of discount. Such amortization is determined using the interest rate method and is included in net investment income. Realized gains and losses are calculated on a specific identification basis and included in other operating expenses on the consolidated statements of operations.

The cost and fair market value of investments which are classified as available for sale are a follows (in millions):

December 31, 2014	Cost	Fair Market Value
Managed fixed income securities fund	$15.2	$ 15.0
Managed equities fund	3.7	5.3
Total	$18.9	$ 20.3

June 30, 2015	Cost	Fair Market Value
Managed fixed income securities fund	$16.4	$ 15.9
Managed equities fund	3.7	5.4
Total	$20.1	$ 21.3

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The Company's business comprises a single reporting unit for impairment test purposes. For the purposes of these analyses, the Company's estimates of fair value are based on the income approach, which estimates the fair value of the Company based on its future discounted cash flows. In addition to the annual impairment reviews, impairment reviews are performed whenever circumstances indicate a possible impairment may exist. The Company performed its most recent goodwill impairment testing as of October 1, 2014 and did not incur an impairment charge. The Company's goodwill balance was $127.9 million and $128.8 million at December 31, 2014 and June 30, 2015, respectively.

Deferred Loan Costs

The Company records deferred loan costs for expenditures related to acquiring or issuing new debt instruments. These expenditures include bank fees and premiums, as well as attorneys' and filing fees. Net deferred loan costs totaled $9.8 million and $9.3 million, net of accumulated amortization of $12.2 million and $13.7 million at December 31, 2014 and June 30, 2015, respectively, and are included in other assets on the accompanying condensed consolidated balance sheets. The Company amortizes the deferred loan costs to interest expense over the life of the respective debt instrument.

Contract-Based Physician Minimum Revenue Guarantees

The Company committed to provide certain financial assistance pursuant to recruiting agreements, or "physician minimum revenue guarantees," with various physicians practicing in the communities it serves. In consideration for a physician relocating to one of its communities and agreeing to engage in private practice for the benefit of the respective community, the Company may advance certain amounts of money to a physician to assist in establishing his or her practice.

The Company records a contract-based intangible asset and related guarantee liability for new physician minimum revenue guarantees. The contract-based intangible asset is amortized to other operating expenses over the period of the physician contract, which is typically four years. The Company's physician income guarantee intangible assets were $12.1 million ($6.7 million, net) and $13.6 million ($7.2 million, net) at December 31, 2014 and June 30, 2015, respectively. The Company committed to advance a maximum amount of approximately $3.7 million at June 30, 2015. As of December 31, 2014 and June 30, 2015, the Company's liability balance for contract-based physician minimum revenue guarantees was approximately $0.7 million and $1.4 million, respectively, which is included in other accrued liabilities in the accompanying condensed consolidated balance sheets.

9. INCOME TAXES

The Company's income tax benefit was $1.8 million on losses from continuing operations of $6.4 million, for an effective income tax rate of 28.1% during the six months ended June 30, 2015. The Company's income tax expense was $1.6 million on losses from continuing operations of $7.6 million, for an effective income tax rate of 21.1% during the six months ended June 30, 2014. Due to the Company's valuation allowance, the effective tax rate bears no relationship to pre-tax income.

10. COMMITMENTS AND CONTINGENCIES

Employment Agreements

The Company has executed senior management agreements with six of its senior executive officers. The agreements provide for minimum salary levels, adjusted based upon individual and Company performance criteria, as well as for participation in bonus plans which are payable if specific management goals are met. The agreements also provide for severance benefits, if certain criteria are met, for a period of up to two years. The senior management agreements remain in place for each of the senior executive officers during their period of employment with the Company or any of its subsidiaries.

Legal Proceedings and General Liability Claims

The Company is, from time to time, subject to claims and suits arising in the ordinary course of business, including claims for damages for personal injuries, medical malpractice, breach of management contracts, wrongful restriction of or interference with physicians' staff privileges and employment related claims. In certain of these actions, plaintiffs request punitive or other damages against the Company which may not be covered by insurance. The Company is currently not a party to any proceeding which, in management's opinion, would have a material adverse effect on the Company's business, financial condition or results of operations.

Acquisitions

The Company has historically acquired businesses with prior operating histories. Acquired businesses may have unknown or contingent liabilities, including liabilities for failure to comply with healthcare laws and regulations, medical and general professional liabilities, workers compensation liabilities, previous tax liabilities and unacceptable business practices. Although the Company institutes policies designed to conform practices to its standards following completion of acquisitions, there can be no assurance that the Company will not become liable for past activities of the acquired businesses that may later be asserted to be improper by private plaintiffs or government agencies. Although the Company generally seeks to obtain indemnification from prospective sellers covering such matters, there can be no assurance that any such matter will be covered by indemnification, or if covered, that such indemnification will be adequate to cover potential losses and fines.

11. DEBT OBLIGATIONS

The following table presents a summary of the Company's debt obligations at December 31, 2014 and June 30, 2015 (in millions):

	December 31, 2014	June 30, 2015
9 ¼% Notes	$ 500.0	$ 500.0
Unamortized discount on 9 ¼% Notes	(2.2)	(1.8)
Total 9 ¼% Notes	$ 497.8	$ 498.2
Term Loan Facility	$ 100.0	$ 99.5
Unamortized discount on Term Loan Facility	(1.0)	(0.9)
Total Term Loan Facility	$ 99.0	$ 98.6
Capital lease obligations	17.0	15.8
Total debt obligations	$ 613.8	$ 612.6
Less current maturities	6.0	6.6
Total long-term debt	$ 607.8	$ 606.0

9 ¼% Senior Unsecured Notes

In June 2010, the Company completed a comprehensive refinancing plan (the "Refinancing"). Under the Refinancing, the Company issued $500 million of 9 ¼% Notes due 2017 and entered into a new senior secured asset-based loan ("ABL"), consisting of a $100 million revolving credit facility maturing in December 2014 (the "2010 Revolving Facility"). The proceeds from the 9 ¼% Notes were used to repay the outstanding principal and interest related to the Company's 2008 bank credit agreement and to pay fees and expenses relating to the Refinancing of approximately $21.7 million.

Interest on the 9 ¼% Notes is payable semi-annually on July 1 and January 1 of each year. The 9 ¼% Notes are unsecured general obligations of the Company and rank equal in right of payment to all existing and future senior unsecured indebtedness of the Company. All payments on the 9 ¼% Notes are guaranteed jointly and severally on a senior unsecured basis by the Company and its subsidiaries, other than those subsidiaries that do not guarantee the obligations of the borrowers under the Company's prior senior credit facilities.

The Company may redeem all or a part of the 9 ¼% Notes at any time, plus accrued and unpaid interest, if any, to the date of redemption plus a redemption price equal to a percentage of the principal amount of the notes redeemed based on the following redemption schedule:

July 1, 2014 to June 30, 2015	104.625%
July 1, 2015 to June 30, 2016	102.313%
July 1, 2016 and thereafter	100.000%

If the Company experiences a change of control under certain circumstances, the Company must offer to repurchase all of the 9 ¼% Notes at a price equal to 101.000% of their principal amount, plus accrued and unpaid interest, if any, to the repurchase date.

The 9 ¼% Notes contain customary affirmative and negative covenants, which among other things, limit the Company's ability to incur additional debt, create liens, pay dividends, effect transactions with its affiliates, sell assets, pay subordinated debt, merge, consolidate, enter into acquisitions and effect sale leaseback transactions.

Upon and subject to the closing of the merger described in Note 13 below, the indebtedness of the Parent and its subsidiaries, including the outstanding 9 ¼% Notes, will be repaid or otherwise discharged, with the indenture underlying the 9 ¼% Notes to be terminated upon such repayment or other discharge, provided that the redemption of the 9 ¼% Notes may occur after the effective time of the merger in accordance with a valid redemption notice delivered prior to or substantially concurrently with the effective time of the merger.

ABL and 2010 Revolving Facility

On December 31, 2014, the Company entered into an Amended and Restated Loan Agreement (the "ABL Agreement"), by and among the Company, the borrowing subsidiaries signatory thereto, the guarantying subsidiaries signatory thereto, the lenders party thereto, and Bank of America, N.A., as agent for the lenders ("ABL Agent"). The ABL Agreement amends, restates, and replaces in its entirety the Loan and Security Agreement, dated as of June 28, 2010 (as previously amended, the "Prior ABL Agreement"), by and among the Company and certain borrowing subsidiaries as borrowers, certain guarantying subsidiaries as guarantors, certain financial institutions party thereto from time to time as lenders, and ABL Agent as agent for the lenders.

The ABL Agreement amends and restates the Prior ABL Agreement to, among other things, change the maturity date of the 2010 Revolving Facility from December 29, 2014 to the earlier to occur of (a) June 3, 2019, (b) November 16, 2016, if, as of such date, (i) the 9 ¼% Notes have not been repaid in full or refinanced on terms reasonably satisfactory to ABL Agent (including a maturity date no earlier than December 3, 2019) and (ii) the Term Loan Facility has not been repaid in full or the maturity date has not been extended to a date that is no earlier than September 3, 2019, and (c) April 1, 2017 if, as of such date, the Company's 9 ¼% Notes have not been repaid in full or refinanced on terms reasonably satisfactory to ABL Agent (including a maturity date no earlier than December 3, 2019).

Upon the occurrence of certain events, the Company may request the 2010 Revolving Facility to be increased by an aggregate amount not to exceed $25.0 million. Availability under the 2010 Revolving Facility is subject to a borrowing base of 85% of eligible net accounts receivable. Borrowings under the ABL Agreement bear interest at a rate equal to, at the Company's option, either (a) LIBOR plus an applicable margin or (b) Base Rate, as defined in the ABL Agreement, plus an applicable margin. Subsequent to the most recent amendment and restatement of the ABL Agreement, the applicable margin in effect for borrowings under the 2010 Revolving Facility was reduced from 2.00% to 0.50% with respect to base rate borrowings and from 3.00% to 1.50% with respect to LIBOR borrowings, or reduced from a maximum of 2.50% to 1.00% with respect to base rate borrowings and reduced from a maximum of 3.50% to 2.00% for LIBOR borrowings, subject to the Company's fixed charge coverage ratio. In addition to paying interest on outstanding principal, the Company is required to pay a commitment fee to the lenders under the 2010 Revolving Facility in respect of the unutilized commitments thereunder. Subsequent to the most recent amendment and restatement of the ABL Agreement, based on the average facility usage for the most recently ended calendar month, the commitment fee was reduced from a range of 0.50% 0.75% to a range of 0.25% to 0.375% per annum. The Company must also pay customary letter of credit fees.

At June 30, 2015, the Company had no outstanding loans under the ABL Agreement. At June 30, 2015, the Company had a borrowing base of $82.2 million, net of outstanding letters of credit of $6.7 million, primarily used as the collateral under the Company's workers' compensation programs, immediately available for borrowing under the ABL Agreement.

Upon and subject to the closing of the merger described in Note 13 below, the indebtedness of the Parent and its subsidiaries, including any outstanding loans under the ABL Agreement, will be repaid or otherwise discharged, with the ABL Agreement to be terminated upon such repayment or other discharge.

Term Loan Facility

On December 31, 2014, the Company entered into a Credit Agreement (the "Term Loan Credit Agreement") by and among the Company, as borrower, the Parent, as a guarantor, Credit Suisse AG, Cayman Islands Branch, as administrative agent, and certain other lenders from time to time party thereto.

The Term Loan Credit Agreement establishes the Term Loan Facility, a new senior secured term loan facility consisting of a $100.0 million seven-year term loan. The per annum interest rates applicable to borrowings under the Term Loan Facility are periodically determined at the Company's election as either (a) the LIBO Rate (as defined in the Term Loan Credit Agreement) plus 4.25% or (b) the Base Rate (as defined in the Term Loan Credit Agreement) plus 3.25%. The interest rate as of June 30, 2015 was 5.25%.

The Term Loan Facility is to be repaid in equal quarterly principal payments of $250,000, with the balance to be paid at maturity. The maturity date applicable to borrowings under the Term Loan Facility is the earlier to occur of (a) December 31, 2021, and (b) February 16, 2017, if, as of such date, the 9 ¼% Notes have not been refinanced in full with certain permitted debt. The Term Loan Facility is generally subject to mandatory prepayment in amounts equal to: (a) 100% of the net cash proceeds received from certain asset sales (including insurance recoveries and condemnation events), subject to reinvestment provisions and customary exceptions; (b) 100% of the net cash proceeds from the issuance of new debt (other than certain permitted debt); and (c) 50% of the Company's Excess Cash Flow (as defined in the Term Loan Credit Agreement), with step-downs to (i) 25% and (ii) 0% based on the Secured Net Leverage Ratio (as defined in the Term Loan Credit Agreement).

The Company's obligations under the Term Loan Facility are unconditionally guaranteed by all of the Company's material domestic wholly-owned subsidiaries (other than captive insurance subsidiaries, unrestricted subsidiaries, and certain other subsidiaries identified as excluded subsidiaries in the Term Loan Credit Agreement), provided that a guarantor subsidiary may be released if certain conditions are met. The Company's obligations under the Term Loan Facility are secured by a substantial portion of its assets as well as the assets of its subsidiaries. The Term Loan Credit Agreement contains other terms and conditions that are customary in agreements used in connection with similar transactions.

The proceeds of the Term Loan Facility primarily were used to finance the January 1, 2015 acquisition of a controlling ownership interest in Carolina Pines through the acquisition of all of the equity interests in Hartsville Medical Group, LLC and substantially all of the equity interests in Hartsville, LLC (formerly Hartsville HMA, LLC), each a South Carolina limited liability company.

Upon and subject to the closing of the merger described in Note 13 below, the indebtedness of the Parent and its subsidiaries, including the Term Loan Facility, will be repaid or otherwise discharged, with the Term Loan Credit Agreement to be terminated upon such repayment or other discharge.

Debt Covenants

The indenture governing the 9 ¼% Notes and the Term Loan Facility contain a number of covenants that, among other things, restrict, subject to certain exceptions, the Company's ability and the ability of the Company's subsidiaries, to sell assets, incur additional indebtedness or issue preferred stock, pay dividends and distributions or repurchase our capital stock, create liens on assets, make investments, engage in mergers or consolidations, and engage in certain transactions with affiliates. At June 30, 2015, the Company was in compliance with the debt covenants for the 9 ¼% Notes and the Term Loan Facility that were subject to testing at that date.

The ABL Agreement contains a number of covenants, including the requirement that the Company's fixed charge coverage ratio (as defined) cannot be less than 1.10 to 1.00 at the end of any measurement period. At June 30, 2015, the Company was in compliance with the ABL Agreement debt covenants that were subject to testing at that date.

12. STOCK-BASED COMPENSATION

The Company issues stock-based awards to the Company's employees from time to time, including stock options and other stock-based awards in accordance with the Parent's various board-approved compensation plans. In April 2014, the Parent adopted the 2014 Stock Option Plan (the "2014 Plan"), which effectively replaced the 2006 Stock Option Plan. During the six months ended June 30, 2014 and 2015, the Company incurred non-cash stock-based compensation expense of $3.3 million and $0.7 million, respectively. Stock-based compensation expense is included in salaries and benefits in the accompanying condensed consolidated statements of operations.

Restricted Shares

As of June 30, 2015, approximately 537,000 restricted share awards issued by the Parent remained unvested. The Company expects approximately 454,000 of the unvested restricted shares to vest. As of June 30, 2015, there was approximately $0.4 million of estimated unrecognized compensation cost related to these outstanding restricted share awards. These costs are expected to be recognized by the Company over approximately 2.7 years.

Stock Options

The Company records stock-based employee compensation for options granted using a Black-Scholes-Merton model. The following table sets forth the range of assumptions the Company has utilized in the Black-Scholes-Merton model.

Risk-free interest rate	1.92% to 2.31%
Dividend yield	0%
Volatility (annual)	30.0% to 35.0%
Expected option life	6.5 years

For stock-based awards included in the Black-Scholes-Merton valuation model, the Company uses historical stock price information of certain peer group companies for a period of time equal to the expected award life period to determine estimated volatility. The Company determined the expected life of the stock awards by averaging the contractual life of the awards and the vesting period of the awards. The estimated fair value of awards are amortized to expense on a straight-line basis over the awards' vesting period. Compensation cost related to stock-based awards will be adjusted for future changes in estimated forfeitures and actual results of performance measures.

The 2014 Plan permits the Parent's board of directors to issue approximately 90.5 million stock options to the Company's employees. During the six months ended June 30, 2015, the Parent issued to the Company's employees 125,000 stock options under the 2014 Plan. As of June 30, 2015, approximately 266,000 options have been forfeited and the Parent has the ability to issue approximately 814,000 additional stock based awards under the 2014 Plan. The stock options vest over five years. The Parent's options outstanding have an exercise price of $0.16 per option. The Black-Sholes-Merton valuation model indicated that the fair value of options granted during the six months ended June 30, 2015, at $0.06 per option. As of June 30, 2015, 17.1 million options were vested, and the Company expects approximately 74.5 million options to vest over the life of the awards. As of June 30, 2015, there was approximately $3.5 million of estimated unrecognized compensation cost related to outstanding stock options. These costs are expected to be recognized over approximately 3.9 years.

See Note 13 below for a discussion of the impact of the merger described therein on the restricted shares and stock options issued by the Parent.

13. SUBSEQUENT EVENTS

Sale of Tennessee Facilities

On July 21, 2015, the Company entered into a definitive agreement to sell the Tennessee Facilities as described previously in Note 6. The sale closed effective August 1, 2015.

Capella Holdings, Inc. Merger

On July 21, 2015, the Parent entered into an Agreement and Plan of Merger, dated as of July 21, 2015 (the "Merger Agreement"), with Capella Health Holdings, LLC ("Purchaser"), Capella Holdings Acquisition Sub, Inc., a wholly-owned subsidiary of Purchaser ("Merger Sub"), and GTCR Fund VIII, L.P., solely in its capacity as representative of the stockholders and option holders of the Parent (the "Representative"). Purchaser is a joint venture limited liability company between an indirect wholly-owned subsidiary of Medical Properties Trust, Inc. ("MPT Sub") and an entity affiliated with the current senior management of the Company ("ManageCo"). Pursuant to the Merger Agreement, and subject to the satisfaction or waiver of the closing conditions set forth therein, Merger Sub will merge with and into the Parent, after which the separate existence of Merger Sub will cease, and the Parent will be the surviving corporation and a wholly-owned subsidiary of Purchaser (collectively, the "Merger").

At the effective time of the Merger on August 31, 2015, each share of common stock of the Parent, other than (i) those shares held by the Parent, its subsidiaries, Purchaser or Merger Sub (other than those shares described in clause (iii) below), (ii) those shares with respect to which appraisal rights are properly exercised in accordance with the General Corporation Law of the State of Delaware and (iii) those shares contributed to Purchaser or its designee pursuant to an equity rollover mechanism facilitating the formation of ManageCo, were converted into the right to receive a cash payment per share equal to (x) $900,000,000, subject to certain adjustments for the Parent's cash, indebtedness, transaction expenses, working capital and other adjustment items at closing, plus the aggregate exercise price of all outstanding options, minus certain escrow and holdback amounts relating to post-closing purchase price adjustments and the costs, fees and expenses of the Representative, divided by (y) the number of shares outstanding on a fully-diluted basis assuming full exercise of all outstanding options (the "Closing Per Share Merger Consideration"). At the effective time of the Merger, each outstanding option to purchase shares of the Parent's common stock were converted into the right to receive a cash payment equal to the excess, if any, of (x) the Closing Per Share Merger Consideration multiplied by the number of shares of the Parent's common stock issuable upon exercise of such option over (y) the aggregate exercise price of such option, and will automatically be cancelled. The Merger Agreement further provides that each share of common stock of the Parent (excluding those shares described in clauses (i) and (ii) above, but including those shares described in clause (iii) above) and each outstanding option to purchase shares of the Parent's common stock were entitle the holder thereof to receive its pro rata portion of certain additional consideration, if any, resulting from certain post-closing adjustments, releases of escrow and holdback amounts and permitted dispositions of certain hospitals.

In addition to providing for the repayment of all other indebtedness of the Parent and its subsidiaries upon consummation of the Merger, the Merger Agreement provides that, subject to the consummation of the Merger, Purchaser will repay, or cause to be repaid, on behalf of the Parent and its subsidiaries, the outstanding 9 ¼% Notes. The redemption of the 9 ¼% Notes occurred after the effective time of the Merger in accordance with a valid redemption notice delivered prior to or substantially concurrently with the effective time of the Merger.

Following the consummation of the Merger, the Company and its operating subsidiaries is managed and operated by ManageCo, or one or more of ManageCo's affiliates, pursuant to the terms of a management agreement, which terms include a base management fee payable to ManageCo and incentive payments tied to mutually agreed benchmarks. Under the limited liability company agreement of Purchaser, ManageCo manages Purchaser and MPT Sub has no management authority or control except for certain protective rights consistent with a passive ownership interest, such as a limited right to approve annual budgets and the right to approve extraordinary transactions, other than in the case of certain extraordinary events.

Exhibit 99.3

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These unaudited pro forma condensed consolidated financial statements of Medical Properties Trust, Inc. and Subsidiaries, and of MPT Operating Partnership, L.P. and Subsidiaries have been prepared to give pro forma effect to the acquisition, disposition and financing transactions described below:

Acquisition of Capella Holdings, Inc.

On August 31, 2015, affiliates of Medical Properties Trust, Inc. (the "Company") and MPT Operating Partnership, L.P. (the "Operating Partnership", and together with the Company and its consolidated subsidiaries, "we" or "our") completed the previously announced acquisition of all of the outstanding interests in Capella Holdings, Inc. ("Capella"). In conjunction with the acquisition, MPT Camaro Opco, LLC, a wholly-owned subsidiary of MPT Development Services, Inc., our taxable REIT subsidiary, formed a joint venture limited liability company, Capella Health Holdings, LLC ("Capella Holdings"), with an entity affiliated with the current senior management of Capella ("ManageCo"). MPT Camaro Opco, LLC holds 49% of the equity interests in Capella Holdings and the ManageCo holds the remaining 51%. Pursuant to the terms of the merger agreement dated July 21, 2015, among Capella Holdings, a merger subsidiary of Capella Holdings, Capella and GTCR Fund VIII, L.P. (solely in its capacity as representative of the stockholders and optionholders of Capella), at closing the merger subsidiary merged with and into Capella, with Capella surviving the merger as a wholly-owned subsidiary of Capella Holdings, in exchange for cash merger consideration to the former owners of Capella in the amount of approximately $900 million.

To help fund Capella Holding's payment of the merger consideration and transaction expenses, MPT Camaro Opco, LLC made an equity contribution and acquisition loan in the aggregate amount of approximately $900 million. The loan has a 15-year term and bears interest at a rate equal to the initial rate we receive under the sale-leaseback and mortgage loan transactions described below.

Promptly upon closing of the merger transaction, subsidiaries of the Operating Partnership acquired Capella's interests in the real estate of four of its acute care hospitals (and will acquire a fifth hospital pending receipt of customary state regulatory approvals), for an aggregate purchase price of $390 million. Each of the facilities acquired were simultaneously leased back to subsidiaries of Capella. In addition, subsidiaries of the Operating Partnership made mortgage loans to Capella in an aggregate amount of $210 million, secured by a first lien mortgage in Capella's interests in its two remaining hospitals. The aggregate purchase price for the facilities we acquired and the aggregate mortgage loan proceeds for the remaining facilities were credited and offset against the principal outstanding balance of the acquisition loan. The real estate leases and mortgage loans have substantially similar 15-year terms with four 5-year extension options, plus consumer price-indexed increases, limited to a 4% ceiling annually. The initial GAAP yield under the lease and mortgage loans is approximately 9.1%.

We collectively refer to the transaction described above in connection with our acquisition of Capella as the "Capella Transactions".

Acquisition of Median Kliniken Portfolio

On April 29, 2015, we entered into a series of definitive agreements with Median Kliniken S.à r.l., or MEDIAN, a German provider of post-acute and acute rehabilitation services, to acquire the real estate assets of 32 hospitals owned by MEDIAN for an aggregate purchase price of approximately €688 million. Upon acquisition, each property became subject to a master lease between us and MEDIAN providing for the leaseback of the property to MEDIAN. The master lease has an initial term of 27 years and provides for an initial GAAP lease rate of 9.3%, with annual escalators at the greater of one percent or 70% of the German consumer price index. We expect to acquire additional facilities from MEDIAN in a substantially similar sale-leaseback transaction subject to the master lease, resulting in an aggregate purchase price for all acquired facilities of approximately €705 million.

MEDIAN is owned by an affiliate of Waterland Private Equity Fund V C.V. ("Waterland"), which acquired 94.9% of the outstanding equity interests in MEDIAN, and by a subsidiary of our operating partnership, which acquired the remaining 5.1% of the outstanding equity interests in MEDIAN, each in December 2014. In December 2014, we provided interim acquisition loans to affiliates of Waterland and MEDIAN in connection with Waterland's acquisition of its stake in MEDIAN in an aggregate amount of approximately €425 million. In addition, we made further loans to MEDIAN during the first half of 2015 in an aggregate amount of approximately €240 million, which were used by MEDIAN to repay existing debt on properties we have acquired or expect to acquire.

Closing of the sale-leaseback transactions, which began in the second quarter of 2015, is subject to customary real estate, regulatory and other closing conditions, including waiver of any statutory pre-emption rights by local municipalities and antitrust clearance. At each closing, the purchase price for each facility will be reduced and offset against the interim loans made to affiliates of Waterland and MEDIAN as described above and against the amount of any debt assumed or repaid by us in connection with the closing. As of November 6, 2015, we have closed on 30 of the 32 properties for a cumulative purchase price to date of approximately €627 million.

We refer to our acquisition of the MEDIAN properties in the sale-leaseback transactions described above as the "MEDIAN Transactions."

Other Acquisitions

On July 31, 2015, we entered into definitive agreements to acquire a portfolio of several acute care hospitals and a freestanding clinic in Northern Italy for an aggregate purchase price to us of approximately €90 million. The acquisition will be effected through a newly-formed joint venture between us and affiliates of AXA Real Estate, in which we will own a 50% interest. Upon closing, the facilities will be leased to an Italian acute care hospital operator pursuant to a long-term master lease.

On June 16, 2015, we acquired the real estate of two facilities in Lubbock, Texas, a 60-bed inpatient rehabilitation hospital and a 37-bed long-term acute care hospital, for an aggregate purchase price of $31.5 million. We entered into a 20-year lease with Ernest Health, Inc. ("Ernest") for the rehabilitation hospital, which provides for three five-year extension options, and separately entered into a lease with Ernest for the long-term acute care hospital that has a final term ending December 31, 2034. In connection with the transaction, we funded an acquisition loan to Ernest of approximately $12.0 million. Ernest will operate the rehabilitation hospital in a joint venture with Covenant Health System, while the long term acute care hospital will continue to be operated by Fundamental Health under a new sublease with Ernest.

On February 13, 2015, we acquired two general acute care hospitals in the Kansas City area for $110 million. The facilities are leased to affiliates of Prime Healthcare Services, Inc. ("Prime") pursuant to a new master lease providing for a 10-year initial fixed term, with two extension options of five years each. The master lease provides for consumer-price-indexed annual rent increases, subject to a specified floor. In addition we funded a mortgage loan to Prime in the amount of $40 million, which has a 10-year term.

On February 27, 2015, we acquired an inpatient rehabilitation hospital in Weslaco, Texas for $10.7 million that we leased to Ernest under our existing master lease with Ernest. In addition, we funded an acquisition loan to Ernest in the amount of $5 million.

During the first half of 2015, we completed construction and commenced collection of rent on seven acute care facilities for First Choice ER (a subsidiary of Adeptus Health ("Adeptus")) located in Texas, Arizona and Colorado.

We collectively refer to the transactions described under the headings "Other Acquisitions" above as the "Additional Acquisitions."

Dispositions

On July 30, 2015, we sold a long-term acute care facility in Luling, Texas for approximately $9.7 million. In addition, in August 2015, we sold six other facilities located in the United States for total proceeds of approximately $9.5 million, of which $8.0 million was in cash and the remaining $1.5 million was in the form of a loan. We collectively refer to the dispositions described above as the "Dispositions."

Financing Transactions

On August 11, 2015, the Company completed an offering of 28.75 million shares of its common stock (including 3.75 million shares sold pursuant to the exercise in full of the underwriters' option to purchase additional shares).

On August 19, 2015, the Operating Partnership and MPT Finance Corporation, a Delaware corporation and wholly owned subsidiary of the Operating Partnership, completed a public offering of €500 million aggregate principal amount of their 4.00% senior notes due 2022.

We financed the remaining balances payable by us in connection with the various transactions described above through borrowings under our revolving credit facility. However, for proforma purposes we have assumed we will convert $500 million of our revolving borrowings into long-term permanent financing at a rate of 5.25%.

We collectively refer to these financing transactions as the "Financing Transactions". We collectively refer to the Capella Transactions, MEDIAN Transactions, Additional Acquisitions, Dispositions and Financing Transactions as the "Recent Portfolio Transactions."

These unaudited pro forma condensed consolidated financial statements were based on and should be read in conjunction with:

- the accompanying notes to the unaudited pro forma condensed consolidated financial statements; and
- the Company's and Operating Partnership's consolidated financial statements for the year ended December 31, 2014 and for the six months ended June 30, 2015 and the notes relating thereto, as filed with the Securities and Exchange Commission.

The historical consolidated financial statements have been adjusted in the unaudited pro forma condensed consolidated financial statements to give effect to pro forma events that are (1) directly attributable to the Recent Portfolio Transactions, (2) factually supportable and (3) with respect to the unaudited pro forma condensed consolidated statements of income (which we refer to as the pro forma statements of income), expected to have a continuing impact on our results. The pro forma statements of income for the year ended December 31, 2014 and for the six months ended June 30, 2015, give effect to the Recent Portfolio Transactions as if they occurred on January 1, 2014 and January 1, 2015, respectively. The unaudited pro forma condensed consolidated balance sheet (which we refer to as the pro forma balance sheet) as of June 30, 2015, gives effect to the Recent Portfolio Transactions as if they each occurred on June 30, 2015.

As described in the accompanying notes, the unaudited pro forma condensed consolidated financial statements have been prepared using the acquisition method of accounting for the real estate acquired and assumes certain accounting for the Capella Transactions (such as using the equity method to account for our 49% interest in Capella Health Holdings), MEDIAN Transactions and Additional Acquisitions, in each case, in accordance with GAAP and the regulations of the SEC. We have been treated as the acquirer of real estate in each of the transactions for accounting purposes. The acquisition accounting is dependent upon certain valuations and other studies that have yet to commence or progress to a stage where there is sufficient information for a definitive measurement. Accordingly, the pro forma financial statements are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed consolidated financial statements. Differences between these preliminary estimates and the final accounting will occur and these differences could have a material impact on the pro forma financial statements and our future results of operations and financial position.

The pro forma financial statements have been presented for informational purposes only and are not necessarily indicative of what our results of operations and financial position would have been had the Recent Portfolio Transactions been completed on the dates indicated. In addition, the pro forma financial statements do not purport to project our future results of operations or financial position.

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
Unaudited Pro Forma Condensed Consolidated Balance Sheet

(in thousands)	Medical Properties Trust, Inc. Historical June 30, 2015	Capella Pro Forma Adjustments (A)	MEDIAN Pro Forma Adjustments (A)	Additional Acquisitions and Dispositions Pro Forma Adjustments (A)	Medical Properties Trust, Inc. Pro Forma June 30, 2015
Assets					
Real estate assets					
Land, buildings and improvements, and intangible lease assets	$2,720,011	$ 229,219	$ 460,260	$ (16,455)	$3,393,035
Mortgage loans	437,587	210,000	—	1,500	649,087
Net investment in direct financing leases	455,020	160,781	—	—	615,801
Gross investment in real estate assets	3,612,618	600,000	460,260	(14,955)	4,657,923
Accumulated depreciation and amortization	(231,909)	—	—	9,875	(222,034)
Net investment in real estate assets	3,380,709	600,000	460,260	(5,080)	4,435,889
Cash and cash equivalents	45,904	(894,900)	(118,935)	1,013,835	45,904
Interest and rent receivables	56,792	—	—	(938)	55,854
Straight-line rent receivables	68,927	—	—	(923)	68,004
Other loans	548,865	290,000	(376,772)	—	462,093
Other assets	124,928	4,900**(B)**	—	112,632**(B)**	242,460
Total Assets	**$4,226,125**	**$ —**	**$ (35,447)**	**$1,119,526**	**$5,310,204**
Liabilities and Equity					
Liabilities					
Debt, net	$2,262,861	$ —	$ —	$ 787,683**(C)**	$3,050,544
Accounts payable and accrued expenses	130,505	—	—	—	130,505
Deferred revenue	27,541	—	—	(68)	27,473
Lease deposits and other obligations to tenants	9,341	—	—	(313)	9,028
Total liabilities	2,430,248	—	—	787,302	3,217,550
Total capital	1,795,877	—	(35,447)	332,224	2,092,654
Total Liabilities and Equity	**$4,226,125**	**$ —**	**$ (35,447)**	**$1,119,526**	**$5,310,204**

The accompanying notes are an integral part of these unaudited pro forma condensed consolidated financial statements.

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
Unaudited Pro Forma Condensed Consolidated Statement of Income

(In thousands, except per share amounts)	Medical Properties Trust, Inc. Historical For the Six Months Ended June 30, 2015	Capella Pro Forma Adjustments	MEDIAN Pro Forma Adjustments	Additional Acquisitions and Dispositions Pro Forma Adjustments	Medical Properties Trust, Inc. Pro Forma For the Six Months Ended June 30, 2015
Revenues					
Rent billed	$106,994	$ 6,800(J)	$ 33,113(L)	$ 3,190(F)	$150,097
Straight-line rent	9,980	991(M)	4,686(D)	1,010(F)	16,667
Income from direct financing leases	25,363	10,702(N)	—	185(F)	36,250
Interest and fee income	53,425	20,000(K)	(20,177)(E)	963(F)	54,211
Total revenues	195,762	38,493	17,622	5,348	257,225
Expenses					
Real estate depreciation and amortization	29,712	2,843	9,362	282	42,199
Property-related	881	—	—	(2)	879
General and administrative	21,547	—	500	—	22,047
Acquisition expenses	32,048	—	—	(26,730)	5,318
Total operating expenses	84,188	2,843	9,862	(26,450)	70,443
Operating income	111,574	35,650	7,760	31,798	186,782
Other income (expense)					
Other income (expense)	(571)	—	—	—	(571)
Earnings from equity and other interests	1,956	2,438(I)	—	1,731(I)	6,125
Debt refinancing expense	(238)	—	—	—	(238)
Interest expense	(53,318)	—	—	(22,622)(G)	(75,940)
Income tax (expense) benefit	(938)	(2,552)	178	(335)	(3,647)
Net other expense	(53,109)	(114)	178	(21,226)	(74,271)
Income from continuing operations	58,465	35,536	7,938	10,572	112,511
Income from discontinued operations	—	—	—	—	—
Net income	58,465	35,536	7,938	10,572	112,511
Net income attributable to non-controlling interests	(161)	—	—	—	(161)
Net income attributable to MPT common stockholders	$ 58,304	$ 35,536	$ 7,938	$ 10,572	$112,350
Earnings per common share—basic					
Income from continuing operations attributable to MPT common stockholders	$ 0.28				$ 0.47
Income from discontinued operations attributable to MPT common stockholders	—				—
Net income attributable to MPT common stockholders	$ 0.28				$ 0.47
Weighted average shares outstanding—basic	205,515			31,270(H)	236,785
Earnings per common share—diluted					
Income from continuing operations attributable to MPT common stockholders	$ 0.28				$ 0.47
Income from discontinued operations attributable to MPT common stockholders	—				—
Net income attributable to MPT common stockholders	$ 0.28				$ 0.47
Weighted average shares outstanding—diluted	206,127			31,270(H)	237,397

The accompanying notes are an integral part of these
unaudited pro forma condensed consolidated financial statements.

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
Unaudited Pro Forma Condensed Consolidated Statement of Income

(In thousands, except per share amounts)	Medical Properties Trust, Inc. Historical For the Twelve Months Ended December 31, 2014	Capella Pro Forma Adjustments	MEDIAN Pro Forma Adjustments	Additional Acquisitions and Dispositions Pro Forma Adjustments	Medical Properties Trust, Inc. Pro Forma For the Twelve Months Ended December 31, 2014
Revenues					
Rent billed	$ 187,018	$ 13,600(J)	$ 78,869(L)	$ 13,830(F)	$ 293,317
Straight-line rent	13,507	1,982(M)	11,161(D)	4,605(F)	31,255
Income from direct financing leases	49,155	21,492(N)	—	1,149(F)	71,796
Interest and fee income	62,852	40,000(K)	(1,696)(E)	4,869(F)	106,025
Total revenues	312,532	77,074	88,334	24,453	502,393
Expenses					
Real estate depreciation and amortization	53,938	5,687	22,299	2,732	84,656
Impairment charges	50,128	—	—	—	50,128
Property-related	1,851	—	—	(82)	1,769
General and administrative	37,274	—	2,000	—	39,274
Acquisition expenses	26,389	—	—	(15,535)	10,854
Total operating expenses	169,580	5,687	24,299	(12,885)	186,681
Operating income	142,952	71,387	64,035	37,338	315,712
Other income (expense)					
Other income (expense)	5,481	—	—	—	5,481
Earnings from equity and other interests	2,559	4,876(I)	—	4,124(I)	11,559
Debt refinancing and unutilized financings expense	(1,698)	—	—	—	(1,698)
Interest expense	(98,156)	—	—	(49,623)(G)	(147,779)
Income tax (expense) benefit	(340)	(5,104)	(1,186)	(790)	(7,420)
Net other expense	(92,154)	(228)	(1,186)	(46,289)	(139,857)
Income from continuing operations	50,798	71,159	62,849	(8,951)	175,855
Income (loss) from discontinued operations	(2)	—	—	—	(2)
Net income	50,796	71,159	62,849	(8,951)	175,853
Net income attributable to non-controlling interests	(274)	—	—	—	(274)
Net income attributable to MPT common stockholders	**$ 50,522**	**$ 71,159**	**$ 62,849**	**$ (8,951)**	**$ 175,579**
Earnings per common share—basic					
Income from continuing operations attributable to MPT common stockholders	$ 0.29				$ 0.75
Income from discontinued operations attributable to MPT common stockholders	—				—
Net income attributable to MPT common stockholders	$ 0.29				$ 0.75
Weighted average shares outstanding—basic	169,999			63,250(H)	233,249
Earnings per common share—diluted					
Income from continuing operations attributable to MPT common stockholders	$ 0.29				$ 0.75
Income from discontinued operations attributable to MPT common stockholders	—				—
Net income attributable to MPT common stockholders	$ 0.29				$ 0.75
Weighted average shares outstanding—diluted	170,540			63,250(H)	233,790

The accompanying notes are an integral part of these
unaudited pro forma condensed consolidated financial statements.

MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES
Unaudited Pro Forma Condensed Consolidated Balance Sheet

(in thousands)	MPT Operating Partnership L.P. Historical June 30, 2015	Capella Pro Forma Adjustments (A)	MEDIAN Pro Forma Adjustments (A)	Additional Acquisitions and Dispositions Pro Forma Adjustments (A)	MPT Operating Partnership L.P. Pro Forma June 30, 2015
Assets					
Real estate assets					
Land, buildings and improvements, and intangible lease assets	$ 2,720,011	$ 229,219	$ 460,260	$ (16,455)	$ 3,393,035
Mortgage loans	437,587	210,000	—	1,500	649,087
Net investment in direct financing leases	455,020	160,781	—	—	615,801
Gross investment in real estate assets	3,612,618	600,000	460,260	(14,955)	4,657,923
Accumulated depreciation and amortization	(231,909)	—	—	9,875	(222,034)
Net investment in real estate assets	3,380,709	600,000	460,260	(5,080)	4,435,889
Cash and cash equivalents	45,904	(894,900)	(118,935)	1,013,835	45,904
Interest and rent receivables	56,792	—	—	(938)	55,854
Straight-line rent receivables	68,927	—	—	(923)	68,004
Other loans	548,865	290,000	(376,772)	—	462,093
Other assets	124,928	4,900 **(B)**	—	112,632 **(B)**	242,460
Total Assets	**$ 4,226,125**	**$ —**	**$ (35,447)**	**$ 1,119,526**	**$ 5,310,204**
Liabilities and Capital					
Liabilities					
Debt, net	$ 2,262,861	$ —	$ —	$ 787,683 **(C)**	$ 3,050,544
Accounts payable and accrued expenses	84,550	—	—	—	84,550
Deferred revenue	27,541	—	—	(68)	27,473
Lease deposits and other obligations to tenants	9,341	—	—	(313)	9,028
Payable due to Medical Properties Trust, Inc.	45,565	—	—	—	45,565
Total liabilities	2,429,858	—	—	787,302	3,217,160
Total capital	1,796,267	—	(35,447)	332,224	2,093,044
Total Liabilities and Capital	**$ 4,226,125**	**$ —**	**$ (35,447)**	**$ 1,119,526**	**$ 5,310,204**

The accompanying notes are an integral part of these unaudited pro forma condensed consolidated financial statements.

MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES
Unaudited Pro Forma Condensed Consolidated Statement of Income

(In thousands, except per unit amounts)	MPT Operating Partnership, L.P. Historical For the Six Months Ended June 30, 2015	Capella Pro Forma Adjustments	MEDIAN Pro Forma Adjustments	Additional Acquisitions and Dispositions Pro Forma Adjustments	MPT Operating Partnership, L.P. Pro Forma For the Six Months Ended June 30, 2015
Revenues					
Rent billed	$ 106,994	$ 6,800(J)	$ 33,113(L)	$ 3,190(F)	$ 150,097
Straight-line rent	9,980	991(M)	4,686(D)	1,010(F)	16,667
Income from direct financing leases	25,363	10,702(N)	—	185(F)	36,250
Interest and fee income	53,425	20,000(K)	(20,177)(E)	963(F)	54,211
Total revenues	195,762	38,493	17,622	5,348	257,225
Expenses					
Real estate depreciation and amortization	29,712	2,843	9,362	282	42,199
Property-related	881	—	—	(2)	879
General and administrative	21,547	—	500	—	22,047
Acquisition expenses	32,048	—	—	(26,730)	5,318
Total operating expenses	84,188	2,843	9,862	(26,450)	70,443
Operating income	111,574	35,650	7,760	31,798	186,782
Other income (expense)					
Other income (expense)	(571)	—	—	—	(571)
Earnings from equity and other interests	1,956	2,438(I)	—	1,731(I)	6,125
Debt refinancing expense	(238)	—	—	—	(238)
Interest expense	(53,318)	—	—	(22,622)(G)	(75,940)
Income tax (expense) benefit	(938)	(2,552)	178	(335)	(3,647)
Net other expense	(53,109)	(114)	178	(21,226)	(74,271)
Income from continuing operations	58,465	35,536	7,938	10,572	112,511
Income from discontinued operations	—	—	—	—	—
Net income	58,465	35,536	7,938	10,572	112,511
Net income attributable to non-controlling interests	(161)	—	—	—	(161)
Net income attributable to MPT Operating Partnership L.P. partners	$ 58,304	$ 35,536	$ 7,938	$ 10,572	$ 112,350
Earnings per unit—basic					
Income from continuing operations attributable to MPT Operating Partnership L.P. partners	$ 0.28				$ 0.47
Income from discontinued operations attributable to MPT Operating Partnership L.P. partners	—				—
Net income attributable to MPT Operating Partnership L.P. partners	$ 0.28				$ 0.47
Weighted average units outstanding—basic	205,515			31,270(H)	236,785
Earnings per unit—diluted					
Income from continuing operations attributable to MPT Operating Partnership L.P. partners	$ 0.28				$ 0.47
Income from discontinued operations attributable to MPT Operating Partnership L.P. partners	—				—
Net income attributable to MPT Operating Partnership L.P. partners	$ 0.28				$ 0.47
Weighted average units outstanding—diluted	206,127			31,270(H)	237,397

The accompanying notes are an integral part of these unaudited pro forma condensed consolidated financial statements.

MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES
Unaudited Pro Forma Condensed Consolidated Statement of Income

(In thousands, except per unit amounts)	MPT Operating Partnership, L.P. Historical For the Twelve Months Ended December 31, 2014	Capella Pro Forma Adjustments	MEDIAN Pro Forma Adjustments	Additional Acquisitions and Dispositions Pro Forma Adjustments	MPT Operating Partnership, L.P. Pro Forma For the Twelve Months Ended December 31, 2014
Revenues					
Rent billed	$ 187,018	$ 13,600(J)	$ 78,869(L)	$ 13,830(F)	$ 293,317
Straight-line rent	13,507	1,982(M)	11,161(D)	4,605(F)	31,255
Income from direct financing leases	49,155	21,492(N)	—	1,149(F)	71,796
Interest and fee income	62,852	40,000(K)	(1,696)(E)	4,869(F)	106,025
Total revenues	312,532	77,074	88,334	24,453	502,393
Expenses					
Real estate depreciation and amortization	53,938	5,687	22,299	2,732	84,656
Impairment charges	50,128	—	—	—	50,128
Property-related	1,851	—	—	(82)	1,769
General and administrative	37,274	—	2,000	—	39,274
Acquisition expenses	26,389	—	—	(15,535)	10,854
Total operating expenses	169,580	5,687	24,299	(12,885)	186,681
Operating income	142,952	71,387	64,035	37,338	315,712
Other income (expense)					
Other income (expense)	5,481	—	—	—	5,481
Earnings from equity and other interests	2,559	4,876(I)	—	4,124(I)	11,559
Debt refinancing and unutilized financings expense	(1,698)	—	—	—	(1,698)
Interest expense	(98,156)	—	—	(49,623)(G)	(147,779)
Income tax (expense) benefit	(340)	(5,104)	(1,186)	(790)	(7,420)
Net other expense	(92,154)	(228)	(1,186)	(46,289)	(139,857)
Income from continuing operations	50,798	71,159	62,849	(8,951)	175,855
Income (loss) from discontinued operations	(2)	—	—	—	(2)
Net income	50,796	71,159	62,849	(8,951)	175,853
Net income attributable to non-controlling interests	(274)	—	—	—	(274)
Net income attributable to MPT Operating Partnership L.P. partners	**$ 50,522**	**$ 71,159**	**$ 62,849**	**$ (8,951)**	**$ 175,579**
Earnings per unit—basic					
Income from continuing operations attributable to MPT Operating Partnership L.P. partners	$ 0.29				$ 0.75
Income from discontinued operations attributable to MPT Operating Partnership L.P. partners	—				—
Net income attributable to MPT Operating Partnership L.P. partners	$ 0.29				$ 0.75
Weighted average units outstanding—basic	169,999			63,250(H)	233,249
Earnings per unit—diluted					
Income from continuing operations attributable to MPT Operating Partnership L.P. partners	$ 0.29				$ 0.75
Income from discontinued operations attributable to MPT Operating Partnership L.P. partners	—				—
Net income attributable to MPT Operating Partnership L.P. partners	$ 0.29				$ 0.75
Weighted average units outstanding—diluted	170,540			63,250(H)	233,790

The accompanying notes are an integral part of these unaudited pro forma condensed consolidated financial statements.

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES
Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

(A) The Capella Pro Forma Adjustments column includes the expected effects of the Capella Transactions, while the MEDIAN Pro Forma Adjustments column represents the conversion of debt discharge and acquisition loans into real estate as described above. We have included the effects of the Additional Acquisitions, Dispositions and Financing Transactions in the Additional Acquisitions and Dispositions Pro Forma Adjustments column. The sources and uses from these transactions are as follows:

Sources:	
Proceeds from Operating Partnership's euro senior notes offering*	$ 557,350
Proceeds from Medical Properties common stock offering	352,188
Proceeds from unsecured debt	500,000
Proceeds from property dispositions	17,675
Total Sources	$1,427,213
Uses:	
Real Estate acquired of Capella	$ 170,000
Direct financing leases of Capella	220,000
Mortgage loan to Capella	210,000
Acquisition loan to Capella	290,000
Equity investment in Capella	4,900
Investment in MEDIAN**	83,488
Paydown of revolving credit facility	269,667
Other investments	114,693
Fee and expenses***	64,465
Total Uses	$1,427,213

* €500 million offering converted using a 1.11 exchange rate.

** Includes additional financing of our investment in MEDIAN, including approximately $28 million of capital gains tax that we expect to capitalize pursuant to our acquisition of MEDIAN under the purchase method of accounting.

*** Includes fees and expenses associated with the Financing Transactions and $35 million of estimated real estate transfer taxes associated with acquiring real estate pursuant to the MEDIAN Transactions.

(B) For our equity investment in Capella, we have assumed that we will account for it under the equity method of accounting. Likewise, the investment we are making in several Italian healthcare facilities, as described above, we have assumed that we will account for our investment in the 50%/50% joint venture under the equity method of accounting.

(C) Consists of approximately $1.057 billion of new unsecured debt less the payments made to reduce the outstanding balance in our revolving credit facility by $270 million. See footnote (A).

(D) Assumes operating lease accounting on the €705 million of real estate acquired and leased to MEDIAN over a 27 year term with a minimum rent escalation of 1%.

(E) Reflects the interest income earned on loans to MEDIAN for 2014 and for the six months ending June 30, 2015. These pro forma results assume the loans are converted to real estate and leased to MEDIAN. This adjustment results in the removal of actual interest earned and recorded in these periods.

(F) Represents incremental net revenue assuming the Additional Acquisitions and Dispositions occurred as of January 1, 2014 for the year ending December 31, 2014 and as of January 1, 2015 for the six months ending June 30, 2015.

(G) Incremental annual and quarter interest expense estimated as follows:

Year ending December 31, 2014	Borrowing/ (Payment)	Incremental Interest Expense
Unsecured debt	$1,057,350	$ 52,850
Revolving credit facility	$ (269,667)	(4,315)
Incremental debt issue cost amortization—unsecured debt		1,088
Total annual incremental interest expense		$ 49,623

Six months ending June 30, 2015	Borrowing/ (Payment)	Incremental Interest Expense
Unsecured debt	$1,057,350	$ 24,292
Revolving credit facility	$ (269,667)	(2,157)
Incremental debt issue cost amortization—unsecured debt		487
Total six months incremental interest expense		$ 22,622

(H) For the year ending December 31, 2014 and six months ending June 30, 2015, we have included additional shares/units related to the Medical Properties' August 2015 equity offering of 28.75 million. In addition, we have included 34.5 million and 2.5 million of additional shares/units for the year ending December 31, 2014 and for the six months ending June 30, 2015, respectively, to reflect a full period impact from Medical Properties' January 2015 equity offering.

(I) Represents equity in earnings from Capella and an Italian joint venture.

(J) Incremental annual and quarter rental income estimated as follows:

Real estate assets acquired and leased—Capella	$170,000
Initial cash lease rate	8%
Annualized income from operating leases	$ 13,600
Rental income for the six months	$ 6,800

(K) Incremental annual and quarter mortgage interest income estimated as follows:

Mortgage and Acquisition loans—Capella	$500,000
Initial cash interest rate	8%
Annualized interest income	$ 40,000
Interest income for the period	$ 20,000

(L) Incremental annual and quarter rental income estimated as follows:

Real estate assets acquired and leased—MEDIAN	€705,000
Initial cash lease rate	8.4%
Annualized rental income in euros	€ 59,300
Annualized rental income in dollars (using 1.12 exchange rate)	$ 78,869
Rental income for the six months in euros	€ 29,650
Rental income for the six months in dollars (using 1.12 exchange rate)	$ 33,113

(M) Assumes operating lease accounting on $170 million of real estate acquired and leased to Capella over a 35 year term (including extension options) with a minimum rent escalation of 2%.

(N) Assumes direct financing lease accounting on $220 million of real estate acquired and leased to Capella over a 35 year term (including extension options) with a minimum rent escalation of 2%.