

TRIAD HOSPITALS INC  
Form 10-Q  
May 14, 2003

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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

**For the quarterly period ended March 31, 2003**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 0-29816**

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**Triad Hospitals, Inc.**

**(Exact name of registrant as specified in its charter)**

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**Delaware**  
(State or other jurisdiction of incorporation or organization)

**75-2816101**  
(I.R.S. Employer Identification No.)

**5800 Tennyson Parkway**

**Plano, Texas**  
(Address of principal executive offices)

**75024**  
(Zip Code)

**(214) 473-7000**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year,  
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock of the latest practical date.

As of April 30, 2003, the number of shares of common stock of Triad Hospitals, Inc. outstanding was 74,996,774.

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**Part I: Financial Information**

**Item 1: Financial Statements**

**TRIAD HOSPITALS, INC.**

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**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**For the periods ended March 31, 2003 and 2002**

**Unaudited**

**(Dollars in millions, except per share amounts)**

	<b>For the three</b>	
	<b>months ended</b>	
	<b>2003</b>	<b>2002</b>
Revenues	\$ 954.5	\$ 860.9
Salaries and benefits	392.8	353.9
Reimbursable expenses	14.8	16.4
Supplies	145.1	133.5
Other operating expenses	175.4	155.4
Provision for doubtful accounts	76.2	63.6
Depreciation	42.2	39.1
Amortization	1.5	1.8
Interest expense	33.2	33.2
Interest income	(0.6)	(0.4)
ESOP expense	2.1	2.4
Gain on sales of assets	(1.3)	(1.6)
<b>Total operating expenses</b>	<b>881.4</b>	<b>797.3</b>
Income before minority interests, equity in earnings and income tax provision	73.1	63.6
Minority interests in earnings of consolidated entities	(2.4)	(3.3)
Equity in earnings of affiliates	7.2	6.1
Income before income tax provision	77.9	66.4
Income tax provision	(30.6)	(26.0)
<b>Net income</b>	<b>\$ 47.3</b>	<b>\$ 40.4</b>
Income per common share:		
Basic	\$ 0.65	\$ 0.58
Diluted	\$ 0.63	\$ 0.55

See notes to the condensed consolidated financial statements.

## TRIAD HOSPITALS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited

(Dollars in millions)

	March 31, 2003	December 31, 2002
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 56.4	\$ 68.3
Accounts receivable, less allowances for doubtful accounts of \$178.1 at March 31, 2003 and \$174.4 at December 31, 2002	539.4	507.4
Inventories	97.0	95.5
Deferred income taxes	39.4	62.3
Prepaid expenses	45.8	36.6
Other	73.7	74.3
	<u>851.7</u>	<u>844.4</u>
Property and equipment, at cost:		
Land	170.7	171.5
Buildings and improvements	1,344.8	1,340.6
Equipment	1,169.4	1,150.8
Construction in progress	108.1	79.6
	<u>2,793.0</u>	<u>2,742.5</u>
Accumulated depreciation	(826.8)	(787.3)
	<u>1,966.2</u>	<u>1,955.2</u>
Goodwill	1,224.0	1,224.0
Intangible assets, net of accumulated amortization	70.5	72.0
Investment in and advances to affiliates	183.7	179.7
Other	105.7	106.3
	<u>4,401.8</u>	<u>4,381.6</u>
<b>Total assets</b>	<b>\$ 4,401.8</b>	<b>\$ 4,381.6</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 120.8	\$ 132.5
Accrued salaries	87.1	107.6
Current portion of long-term debt	77.6	73.1
Other current liabilities	139.2	132.0
	<u>424.7</u>	<u>445.2</u>
Long-term debt	1,597.4	1,618.9
Other liabilities	93.9	86.6
Deferred taxes	157.0	151.1
Minority interests in equity of consolidated entities	123.9	125.3
Stockholders' equity:		

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Common stock .01 par value: 120,000,000 shares authorized, 74,996,360 and 74,937,635 shares issued and outstanding at March 31, 2003 and December 31, 2002, respectively	0.8	0.7
Additional paid-in capital	1,885.8	1,883.5
Accumulated other comprehensive loss	(4.2)	(4.0)
Unearned ESOP compensation	(19.8)	(20.7)
Accumulated earnings	142.3	95.0
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Total stockholders' equity	2,004.9	1,954.5
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 4,401.8	\$ 4,381.6
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See notes to the condensed consolidated financial statements.

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TRIAD HOSPITALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended March 31, 2003 and 2002

Unaudited

(Dollars in millions)

	For the three	
	months ended	
	2003	2002
	<hr/>	<hr/>
Cash flows from operating activities		
Net income	\$ 47.3	\$ 40.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	76.2	63.6
Depreciation and amortization	43.7	40.9
ESOP expense	2.1	2.4
Minority interests	2.4	3.3
Equity in earnings of affiliates	(7.2)	(6.1)
Gain on sales of assets	(1.3)	(1.6)
Deferred income taxes	29.4	26.0
Non-cash interest expense	2.0	1.8
Non-cash stock option expense	0.1	0.1
Increase (decrease) in cash from operating assets and liabilities		
Accounts receivable	(108.2)	(89.2)
Inventories and other assets	(11.5)	(6.9)
Accounts payable and other current liabilities	(25.0)	6.3
Other	6.8	(1.7)
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Net cash provided by operating activities	56.8	79.3
Cash flows from investing activities		
Purchases of property and equipment	(55.5)	(73.0)
Distributions and advances from affiliates	3.2	11.4
Proceeds received on sales of assets	3.7	1.6
Other	(0.2)	0.9
	<u>          </u>	<u>          </u>
Net cash used in investing activities	(48.8)	(59.1)
Cash flows from financing activities		
Payments of long-term debt	(17.3)	(20.6)
Proceeds from issuance of common stock	1.2	3.8
Distributions to minority partners, net	(3.8)	(3.4)
	<u>          </u>	<u>          </u>
Net cash used in financing activities	(19.9)	(20.2)
	<u>          </u>	<u>          </u>
Change in cash and cash equivalents	(11.9)	
Cash and cash equivalents at beginning of period	68.3	16.3
	<u>          </u>	<u>          </u>
Cash and cash equivalents at end of period	\$ 56.4	\$ 16.3
	<u>          </u>	<u>          </u>
Interest payments	\$ 9.7	\$ 10.5
Income tax payments	\$ 1.6	\$ 0.8

See notes to the condensed consolidated financial statements.

**TRIAD HOSPITALS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Unaudited**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements of Triad Hospitals, Inc. ( Triad ). In the opinion of management, all adjustments necessary for a fair presentation have been included and are of a normal recurring nature. Interim results are not necessarily indicative of the results that may be expected for the year. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2002 included in Triad s Form 10-K.

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The balance sheet at December 31, 2002 has been derived from the audited financial statements at that date but does not include all of the information and notes required by generally accepted accounting principles for complete financial statements.

### NOTE 2 STOCK BENEFIT PLANS

Triad's stock-based compensation plans are accounted for under the recognition and measurement principles of APB Opinion No. 25 Accounting for Stock Issued to Employees ( APB 25 ) and related interpretations. APB 25 uses the intrinsic value method to account for options granted to employees. Stock-based compensation is generally not recognized since the option price is typically equal to the market value of the underlying common stock on the date of grant. Triad adopted the disclosure provisions of Statement of Financial Accounting Standards No. 148 Accounting for Stock-Based Compensation Transition and Disclosures ( SFAS 148 ) on December 31, 2002. The disclosure provisions of SFAS 148 require disclosure of the pro forma effect on net income and earnings per share in interim financial statements as if Triad had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 Accounting for Stock-Based Compensation to all stock-based compensation. The following table illustrates the pro forma effect (dollars in millions except per share amounts).

	For the three months ended March 31,	
	2003	2002
Net income as reported	\$ 47.3	\$ 40.4
Add: Stock option expense recorded, net of income tax	0.1	
Less: Fair value stock option expense, net of income tax	(3.8)	(3.0)
	\$ 43.6	\$ 37.4
Pro forma net income		
Basic income per share, as reported	\$ 0.65	\$ 0.58
Add: Stock option expense recorded, net of income tax		
Less: Fair value stock option expense, net of income tax	(0.04)	(0.04)
	\$ 0.61	\$ 0.54
Pro forma basic income per share		
Diluted income per share, as reported	\$ 0.63	\$ 0.55
Add: Stock option expense recorded, net of income tax		
Less: Fair value stock option expense, net of income tax	(0.03)	(0.05)
	\$ 0.60	\$ 0.50
Pro forma diluted income per share		

During the three months ended March 31, 2003, 16,238 shares of common stock were issued through the Management Stock Purchase Plan for proceeds of \$0.4 million. Additionally during the three months ended March 31, 2003, 42,487 stock options were exercised for proceeds of \$0.8 million.

In February 2003, 1,229,300 stock options were granted under the 1999 Long-Term Incentive Plan with an exercise price equal to the market price at the date of grant. The options are exercisable over a four-year period and expire ten years from date of grant.

**TRIAD HOSPITALS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Unaudited**

**NOTE 3 LONG-TERM DEBT**

Triad's senior subordinated notes and senior notes are guaranteed by all wholly-owned operating subsidiaries of Triad (the Guarantor Subsidiaries). The guarantee obligations of the Guarantor Subsidiaries are full, unconditional and joint and several. Triad's non-wholly owned operating subsidiaries do not guarantee the notes (the Non-Guarantor Subsidiaries).

Condensed unaudited consolidating financial statements for Triad and its subsidiaries including the financial statements of Triad Hospitals, Inc. (parent only), the combined Guarantor Subsidiaries and the combined Non-Guarantor Subsidiaries are as follows:

Consolidating Statement of Income

For the three months ended March 31, 2003

Unaudited

(Dollars in millions)

	<u>Triad Hospitals, Inc.</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Revenues	\$	\$ 799.0	\$ 157.7	\$ (2.2)	\$ 954.5
Salaries and benefits	0.1	314.0	78.7		392.8
Reimbursable expenses		14.8			14.8
Supplies		124.1	21.0		145.1
Other operating expenses	0.1	144.1	31.2		175.4
Provision for doubtful accounts		66.0	10.2		76.2
Depreciation		35.7	6.5		42.2
Amortization		1.5			1.5
Interest expense allocated		(3.1)	3.1		
Interest expense, net	32.7	(0.1)			32.6
ESOP expense	2.1				2.1
Management fees			2.2	(2.2)	
Gain on sales of assets		(1.3)			(1.3)
	<u>35.0</u>	<u>695.7</u>	<u>152.9</u>	<u>(2.2)</u>	<u>881.4</u>
Total operating expenses	(35.0)	103.3	4.8		73.1

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Income (loss) before minority interests, equity in earnings and income tax provision					
Minority interests		(2.4)			(2.4)
Equity in earnings of affiliates	112.9	12.0		(117.7)	7.2
Income before income tax provision	77.9	112.9	4.8	(117.7)	77.9
Income tax provision	(30.6)				(30.6)
Net income	\$ 47.3	\$ 112.9	\$ 4.8	\$ (117.7)	\$ 47.3

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TRIAD HOSPITALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

NOTE 3 LONG-TERM DEBT (continued)

Condensed Consolidating Statements of Operations

For the three months ended March 31, 2002

Unaudited

(Dollars in millions)

	Triad	Guarantor	Non-		
	Hospitals, Inc.	Subsidiaries	Guarantor	Eliminations	Consolidated
			Subsidiaries		
Revenues	\$	\$ 717.9	\$ 145.7	\$ (2.7)	\$ 860.9
Salaries and benefits	0.1	282.4	71.4		353.9
Reimbursable expenses		16.4			16.4
Supplies		112.9	20.6		133.5
Other operating expenses	0.2	129.4	25.8		155.4
Provision for doubtful accounts		53.4	10.2		63.6
Depreciation		33.5	5.6		39.1
Amortization		1.5	0.3		1.8
Interest expense allocated		(2.3)	2.3		
Interest expense, net	32.5	0.3			32.8
ESOP expense	2.4				2.4
Management fees			2.7	(2.7)	

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Gain on sales of assets		(1.6)			(1.6)
Total operating expenses	35.2	625.9	138.9	(2.7)	797.3
Income (loss) before minority interests, equity in earnings and income tax provision	(35.2)	92.0	6.8		63.6
Minority interests		(3.5)	0.2		(3.3)
Equity in earnings of affiliates	101.6	13.1		(108.6)	6.1
Income before income tax provision	66.4	101.6	7.0	(108.6)	66.4
Income tax provision	(26.0)				(26.0)
Net income	\$ 40.4	\$ 101.6	\$ 7.0	\$ (108.6)	\$ 40.4

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TRIAD HOSPITALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

NOTE 3 LONG-TERM DEBT (continued)

Condensed Consolidating Balance Sheets

March 31, 2003

Unaudited

(Dollars in millions)

	Triad Hospitals, Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>					
Current assets					
Cash and cash equivalents	\$	\$ 51.1	\$ 5.3	\$	\$ 56.4
Accounts receivable, net		442.6	96.8		539.4
Other current assets	54.1	185.1	23.9	(7.2)	255.9
	54.1	678.8	126.0	(7.2)	851.7
Net property and equipment, at cost		1,651.6	314.6		1,966.2

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Goodwill		1,185.3	38.7		1,224.0
Intangible assets		70.5			70.5
Investments in and advances to affiliates	1,786.6	433.1		(2,036.0)	183.7
Due from affiliates	1,979.8			(1,979.8)	
Other	54.8	76.5	1.4	(27.0)	105.7
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	\$ 3,875.3	\$ 4,095.8	\$ 480.7	\$ (4,050.0)	\$ 4,401.8
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**Liabilities and Equity**

Current liabilities	\$ 112.5	\$ 265.4	\$ 47.6	\$ (0.8)	\$ 424.7
Due to affiliates		1,854.8	125.0	(1,979.8)	
Long-term debt	1,594.1	30.3	6.4	(33.4)	1,597.4
Deferred taxes and other liabilities	163.8	87.1			250.9
Minority interests in equity of consolidated entities		71.6	52.3		123.9
Equity	2,004.9	1,786.6	249.4	(2,036.0)	2,004.9
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and equity	\$ 3,875.3	\$ 4,095.8	\$ 480.7	\$ (4,050.0)	\$ 4,401.8
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Condensed Consolidating Balance Sheets

December 31, 2002

Unaudited

(Dollars in millions)

	<u>Triad Hospitals, Inc.</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Assets</b>					
Current assets					
Cash and cash equivalents	\$	\$ 60.5	\$ 7.8	\$	\$ 68.3
Accounts receivable, net		420.8	86.6		507.4
Other current assets	78.0	176.1	22.6	(8.0)	268.7
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total current assets	78.0	657.4	117.0	(8.0)	844.4
Net property and equipment, at cost		1,639.5	315.7		1,955.2
Goodwill		1,175.7	48.3		1,224.0
Intangible assets		72.0			72.0
Investments in and advances to affiliates	1,674.3	445.1		(1,939.7)	179.7
Due from affiliates	2,004.5			(2,004.5)	
Other	56.4	76.9		(27.0)	106.3
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	\$ 3,813.2	\$ 4,066.6	\$ 481.0	\$ (3,979.2)	\$ 4,381.6
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**Liabilities and Equity**

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Current liabilities	\$ 85.9	\$ 313.9	\$ 46.8	\$ (1.4)	\$ 445.2
Due to affiliates		1,895.1	109.4	(2,004.5)	
Long-term debt	1,615.3	30.7	6.5	(33.6)	1,618.9
Deferred taxes and other liabilities	157.5	80.2			237.7
Minority interests in equity of consolidated entities		72.4	52.9		125.3
Equity	1,954.5	1,674.3	265.4	(1,939.7)	1,954.5
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and equity	\$ 3,813.2	\$ 4,066.6	\$ 481.0	\$ (3,979.2)	\$ 4,381.6
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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TRIAD HOSPITALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

NOTE 3 LONG-TERM DEBT (continued)

Condensed Consolidating Statements of Cash Flows

For the three months ended March 31, 2003

Unaudited

(Dollars in millions)

	Triad Hospitals, Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net cash provided by (used in) operating activities	\$ (3.6)	\$ 67.5	\$ (7.1)	\$	\$ 56.8
Cash flows from investing activities					
Purchases of property and equipment		(50.1)	(5.4)		(55.5)
Distributions and advances (to) from affiliates	(5.8)	15.8	(6.8)		3.2
Proceeds received on sales of assets		3.7			3.7
Other		(9.8)	9.6		(0.2)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net cash used in investing activities	(5.8)	(40.4)	(2.6)		(48.8)
Cash flows from financing activities					
Payments of long-term debt	(16.5)	(0.7)	(0.1)		(17.3)
Proceeds from issuance of common stock	1.2				1.2
Distributions to minority partners		(3.2)	(0.6)		(3.8)
Net change in due to (from) affiliates	24.7	(32.6)	7.9		
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net cash provided by (used in) financing activities	9.4	(36.5)	7.2		(19.9)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Change in cash and cash equivalents		(9.4)	(2.5)		(11.9)

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Cash and cash equivalents at beginning of period		60.5	7.8		68.3
Cash and cash equivalents at end of period	\$	\$ 51.1	\$ 5.3	\$	\$ 56.4

Condensed Consolidating Statements of Cash Flows

For the three months ended March 31, 2002

Unaudited

(Dollars in millions)

	<b>Triad Hospitals, Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net cash provided by (used in) operating activities	\$ (27.4)	\$ 99.7	\$ 7.0	\$	\$ 79.3
Cash flows from investing activities					
Purchases of property and equipment		(40.4)	(32.6)		(73.0)
Distributions and advances (to) from affiliates	(10.7)	35.8	(13.7)		11.4
Proceeds received on sales of assets		1.6			1.6
Other		0.9			0.9
Net cash used in investing activities	(10.7)	(2.1)	(46.3)		(59.1)
Cash flows from financing activities					
Payments of long-term debt	(20.0)	(0.6)			(20.6)
Proceeds from issuance of common stock	3.8				3.8
Distributions to minority partners		(1.4)	(2.0)		(3.4)
Net change in due to (from) affiliates	54.3	(95.5)	41.2		
Net cash provided by (used in) financing activities	38.1	(97.5)	39.2		(20.2)
Change in cash and cash equivalents		0.1	(0.1)		
Cash and cash equivalents at beginning of period		14.7	1.6		16.3
Cash and cash equivalents at end of period	\$	\$ 14.8	\$ 1.5	\$	\$ 16.3