

# Triad

HOSPITALS, INC.

1999 Annual Report





## TRIAD MISSION STATEMENT

To continuously improve the quality of healthcare services provided to the communities we serve by creating an environment that fosters physician participation, recognizes the value and contributions of our employees, and strives to meet the unique healthcare needs of our local communities.

### **CORPORATE OFFICES**

Triad Hospitals, Inc.  
13455 Noel Road, Suite 2000  
Dallas, Texas 75240  
972-789-2700  
[www.triadhospitals.com](http://www.triadhospitals.com)

### **Independent Accountants**

PricewaterhouseCoopers LLP  
Dallas, Texas

### **Information**

**Stockholders may obtain a copy of Triad's annual report to the Securities and Exchange Commission on Form 10-K without charge by writing to:**

**Investor Relations  
Triad Hospitals, Inc.  
13455 Noel Road, Suite 2000  
Dallas, Texas 75240**

Individuals and institutions seeking financial information about Triad Hospitals, Inc. should contact:

Investor Relations  
972-701-2259

Media representatives and individuals seeking general information should contact:

Patricia G. Ball  
Vice President of Marketing and Public Relations  
972-789-2719

### **ANNUAL MEETING**

The Annual Meeting of Shareholders will be held in Dallas, Texas at the Westin Park Central Hotel at 10:00 a.m., CDT, on May 23, 2000. Shareholders of record on April 14, 2000 will be mailed an official notice of the meeting.

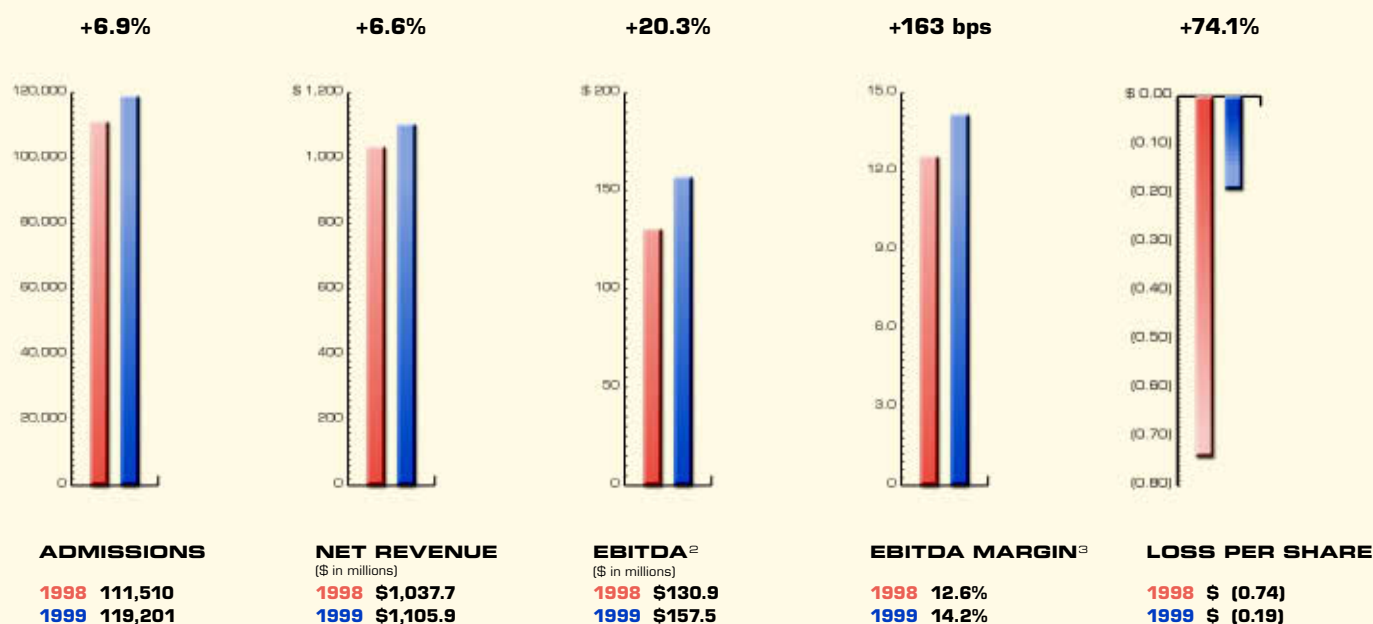
## ABOUT THE COMPANY

Triad Hospitals, Inc. (“Triad” or “the Company”) provides healthcare services through hospitals and ambulatory surgery centers that it owns and manages in small cities and selected high-growth urban markets in the southwestern, western and south central regions of the United States. Created as a new, independent company in 1999 through a spin-off from Columbia/HCA Healthcare Corporation, the Company’s strategy is to build relations with our physicians, involve our communities, increase our volumes, improve our operating margins, and grow through internal expansion, external development and selected acquisitions.

Triad’s operations comprise 29 hospitals and 14 ambulatory surgery centers. One hospital is held-for-sale and two new ambulatory surgery centers are scheduled to open in 2000. The Company has approximately 14,700 employees and operates facilities in 11 states. Triad’s stock is traded on the Nasdaq National Market System under the trading symbol of “TRIH.”

Triad’s three major strategic financial objectives for the first year were to improve operating performance, divest non-core assets, and repay debt. Using some of the proceeds from sales of non-core assets, the Company reduced its debt outstanding from \$675 million to \$565 million.

## 1999 PROGRESS CORE OPERATIONS<sup>1</sup>



1 Core operations exclude facilities that the Company has sold or designated as held-for-sale.

2 Earnings Before Interest, Taxes, Depreciation, and Amortization, as defined in Selected Financial Data.

3 EBITDA as a percentage of net revenue.



# To Our Shareholders and Employees



James D. Shelton, Chairman and CEO

I am pleased to present the first annual report for Triad Hospitals, Inc. Triad became an independent company on May 11, 1999 as a result of the spin-off from Columbia/HCA. I am excited about what we have accomplished in our first year and believe we have positioned the Company for success going forward. I would like to share some of our accomplishments.

## **CULTURE**

While no company can build a culture in a day, a month, or even a year, we have made great strides at Triad in establishing a cultural identity that sets us apart. Two key aspects of our culture are particularly worth mentioning: physician relationships and community involvement.



"Triad was the fifth hospital company to promise the physicians of Alice, Texas a replacement hospital for our 65-year-old facility. Many doctors thought it would never happen. Today we are practicing in a beautiful new state-of-the-art hospital that Triad built. Alice Regional Hospital stands as a tribute to Triad's commitment to quality healthcare in small communities like ours."

Mauricio Teixeira, M.D.  
Board of Trustees  
Chief of Staff  
Alice Regional Hospital  
Alice, Texas

## PHYSICIAN RELATIONSHIPS

The hospital industry is confronted with many challenges, but none is more significant than the contentious relationship that has developed between hospitals and physicians over the last 20 years. We have competed with each other in attempting to gain control of the health-care dollar and how it is spent, and we have burned many bridges in that process. We have found ourselves at odds over insurance products, employment of physicians, and ownership of competing services such as ambulatory surgery centers (ASCs) and diagnostic centers.

At Triad, we are working hard to rebuild a relationship of trust with the medical staffs at our facilities. To this end, we established a communication network through the formation of Physician Leadership Groups (PLGs), one in each of our local communities. Each local group of key physicians meets regularly with local, regional, and cor-

porate management to discuss issues of importance to physicians that are not normally addressed through the routine role of most hospital medical staff organizations. Each local PLG, in turn, sends a representative to our National PLG that meets three times a year with Triad senior management. This group has been working to develop corporate policies that support our private practicing physicians. The elected President of the National PLG also serves as the physicians' liaison with Triad's Board of Directors. We believe that our initial success in rebuilding physician relationships has been largely responsible for Triad's strong admissions growth of almost 7% during 1999. We will continue to improve upon physician relations in the months and years ahead. We are committed to being an organization in which private practicing physicians have input into what happens at their local facilities.





## COMMUNITY INVOLVEMENT

Our community philosophy is a simple one: as shareholders, we may own the bricks and mortar, but the hospitals and the ASCs belong to the communities we serve. Each community needs to embrace its Triad hospital or ASC as a local asset in order for the facility to be truly successful. Yet, because many of our hospitals have had multiple owners over the years, we started out with a number of communities in which local people were not involved in managing their local healthcare needs. We are correcting that deficit by strengthening local Boards of Trustees with the addition and inclusion of more community leaders. We have empowered each local Board of Trustees to take responsibility and make recommendations for strategic planning, assessment of capital needs, and overall supervision of the care provided in its community.

"Triad's involvement with Brownwood Regional Medical Center has given our community a new sense of security. For me, the best thing about Triad is that they have a commitment to this local community. They aren't some remote corporation that doesn't know us. They care and it shows in Brownwood!"

Putter Jarvis  
Board of Trustees, Vice Chairman  
Brownwood Regional Medical Center  
Brownwood, Texas

"The synergy created by the SHARE Foundation's partnership with Triad in the ownership of Medical Center of South Arkansas has been truly exciting. It has resulted in a blending of the best of both cultures. Triad has been a wonderful partner. Triad's excellent management skills and compassionate professionalism, together with a commitment to invest in our community, have led to an improved and expanded Medical Center with a significant number of new services. This has resulted in an enhancement of healthcare for the people of South Arkansas and North Louisiana."

Wm. C. Nolan, Jr.  
SHARE Foundation, Past Chairman  
Board of Trustees, Vice Chairman  
Medical Center of South Arkansas  
El Dorado, Arkansas



## ASSETS

At the time the spin-off was announced, 47 hospitals were identified to become part of Triad. Many of these facilities were in markets where we would never be competitive, where we had significant capital issues, or where the facilities



were better strategic fits for other organizations. During 1999, we completed the initial restructuring of our portfolio of assets into a smaller group of strategically well-positioned hospitals and surgery centers, each with strong potential for long-term performance. Currently, we have nearly completed our restructuring strategy. In 2000, we hope to reach our core operations goal of 28 hospitals and 16 ASCs.

Additionally, since we completed the divestitures ahead of schedule and raised proceeds from those sales at the higher end of management's expectations, we were able to significantly reduce our debt. At the time of spin-off, Triad had approximately \$675 million of debt with a debt-to-EBITDA ratio of approximately 5:1. Sales proceeds and improved operations enabled us to continue an internal capital expenditure campaign that will fuel our growth over the next few years, while at the same time reducing our debt to \$565 million and our debt-to-EBITDA ratio to approximately 3.5:1.

## DEVELOPMENT

We opened two new hospitals and began construction on two new ASCs in 1999:

- ▲ **Alice Regional Hospital**, which has been serving the community of Alice and the surrounding five-county area in South Texas since 1931, opened a replacement facility on July 17, 1999.
- ▲ **SouthCrest Hospital** opened as a new facility on May 3, 1999. SouthCrest is a joint undertaking between Triad and the Hillcrest HealthCare System, a leading not-for-profit system in Tulsa, Oklahoma. The full-service facility is located in the fastest-growing section of Tulsa.





▲ **El Dorado ASC** construction is underway with occupancy slated for fall 2000. The project is a joint venture development among Triad, Banner Health System (the leading not-for-profit system in Arizona and our statewide ASC partner), and local physicians.

▲ **SouthCrest ASC** construction began in fall 1999 and is scheduled for completion in May 2000. The ambulatory surgery center is being developed by Triad, Hillcrest HealthCare System, and local physicians.

"In the beginning, Triad's corporate leadership told the medical staff of Northwest Medical Center that they wanted to know what we thought about how they operated as a company and as a local facility. Many of us were skeptical at first. But after our experience with the National and Local Physician Leadership Groups, Triad has made good on its commitment to listen and respond to the needs of physicians who practice in their hospitals."

Bob Cobb, M.D.  
Board of Trustees  
Northwest Medical Center  
Tucson, Arizona

"Under Triad, our facility has received the attention to capital needs that was lacking under previous owners. The improvements to the facility, including the expansion of our ER and implementation of a new Obstetrics program, were undertaken with input from the medical staff. Crestwood's medical staff members are confident that we have found a genuinely attentive partner in Triad's corporate management."

Allan Walls, M.D.  
Chief of Staff-Elect  
Crestwood Medical Center  
Huntsville, Alabama

We intend to pursue one to two new hospitals and ASCs each year beginning in 2000 and are comfortable doing so with our reduced debt and improved balance sheet. We will pursue both new developments and selected acquisitions. Based on our positive experience with our not-for-profit partners, we will consider joint venturing some of these new projects.



## OPERATIONS

Because many of the facilities we inherited had not been properly focused in recent years, we find ourselves with ample opportunity to improve our operating and financial performance, the quality of our service, and our internal



growth in the years ahead. In 1998, the combined EBITDA margin on our core group of assets (pro forma) was only 12.6%. We improved the EBITDA margin of those same assets to 14.2% in 1999. Working strategically with our community Boards of Trustees and local physicians to achieve the right balance and synergies between quality of care and financial performance, we are confident we can show continued improvement in both. Our commitment is to find the right balance – to be the most efficient provider of

quality healthcare services, not the lowest cost provider – in order to maximize the value of Triad to our shareholders and to our communities. With many of our communities located in the fastest-growing areas of the country with good financial resources, we are also well-positioned to take advantage of internal growth opportunities. For example:

▲ **Tucson, Arizona** – With the phenomenal growth of our two hospitals, Northwest Medical Center and El Dorado Hospital, as well as the new ASC now under construction on the El Dorado campus, we are positioned to become the healthcare leader in one of the fastest-growing counties in the United States. We are currently completing a \$28 million expansion and have approved a \$32 million 59-bed addition that will begin this fall on the Northwest campus. We also have under construction a project that will provide urgent care, high-end diagnostics and ambulatory surgery services to the fast-developing Rancho Vistoso market in the far northwest part of Tucson. Finally, we are evaluating plans to expand our El Dorado Hospital on the east side of Tucson.

▲ **Tulsa, Oklahoma** – Working with our Hillcrest HealthCare System partner, we opened SouthCrest Hospital in South Tulsa in May 1999. A new ASC, in partnership with local physicians, will open in May 2000, and the hospital will open three new cardiac catheterization labs in April 2000. Additionally, SouthCrest is evaluating plans to expand inpatient surgical services and add 32 beds by the end of the year.

▲ **Huntsville, Alabama** – Crestwood Hospital recently received approval from the State of Alabama to add obstetrical services. We expect to complete a major expansion to add this new service in 2000. As one of only two hospitals in this rapidly expanding market of more than 200,000 people, Crestwood has significant growth opportunities.



We expect to identify further opportunities for internal growth through improving our existing facilities, and we will balance those opportunities with new development projects and selected acquisitions.

## BOARD OF DIRECTORS

The Company has worked hard to establish its own identity, beginning last May with the formation of our own Triad Board of Directors, consisting of eight individuals with varied business and professional experience. Mike Parsons, our Executive Vice President and Chief Operating Officer, and I are the two internal directors.

"Watching Triad rebuild the relationship with doctors has been one of my greatest rewards as President of the National Physician Leadership Group (PLG). The PLG initiative encourages doctors to remain loyal to Triad by improving communication at the local, corporate, and Board levels."

Randall S. Prust, M.D.  
National Physician Leadership Group, President  
El Dorado Hospital  
Tucson, Arizona



There are six external directors, as well as a physician who attends as the representative of the private practicing physicians in the communities we serve:

▲ **Thomas F. Frist III** is a Principal of FS Partners, an investment management firm, and has a background in investment banking, including mergers and acquisitions.

▲ **Dale V. Kesler** was the Managing Partner of the Dallas/Fort Worth office of Arthur Andersen LLP and has expertise in the audit and compliance functions.

▲ **Thomas G. Loeffler** is a lawyer and Partner with Arter & Hadden LLP, chairing its Government Affairs division, and is also a former U.S. Congressman.

▲ **Uwe E. Reinhardt** is the James Madison Professor of Economics and Public Affairs at Princeton University where he teaches Health Economics and Policy, and is one of the most widely quoted healthcare authorities in our nation.

▲ **Marvin Runyon** served as 70th Postmaster General of the United States, Chairman of the Tennessee Valley Authority and President and CEO of Nissan, and brings a focus on management, quality, and customer service.

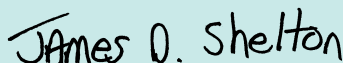
▲ **Gale Sayers** is President and CEO of Sayers Computer Source, a successful computer resale and consulting business which he founded after a highly recognized career with the Chicago Bears of the National Football League.

▲ **Randall S. Prust, M.D.**, who attends meetings of the Board by virtue of his election as the first President of Triad's National Physician Leadership Group, is a practicing anesthesiologist at El Dorado Hospital in Tucson, Arizona.

The Board has worked diligently with the management team to make our first year a success, and I am grateful for all of its contributions.

In conclusion, we recognize and accept the challenge of balancing corporate objectives with community needs. Our Directors and employees are committed to providing high-quality, efficient health services to our communities and simultaneously providing an attractive return to our shareholders. I am confident we can do both.

Sincerely,



James D. Shelton  
Chairman and CEO





**▲ HOSPITALS**

**Alabama**

Crestwood Medical Center  
Huntsville, AL

**Arizona**

El Dorado Hospital  
Tucson, AZ

Northwest Medical Center  
Tucson, AZ

Paradise Valley Hospital  
Phoenix, AZ

**Arkansas**

Medical Center of South Arkansas  
El Dorado, AR

Medical Park Hospital  
Hope, AR

**California**

Mission Bay Hospital  
San Diego, CA

San Leandro Hospital  
San Leandro, CA

**Kansas**

Overland Park Regional  
Medical Center\*  
Overland Park, KS

**Louisiana**

Women & Children's Hospital  
Lake Charles, LA

**Missouri**

Independence Regional  
Health Center\*  
Independence, MO

**New Mexico**

Carlsbad Medical Center  
Carlsbad, NM

Lea Regional Medical Center  
Hobbs, NM

**Oklahoma**

Claremore Regional Hospital  
Claremore, OK

SouthCrest Hospital  
Tulsa, OK

**Oregon**

Willamette Valley Medical Center  
McMinnville, OR

**Texas**

Alice Regional Hospital  
Alice, TX

Brownwood Regional  
Medical Center  
Brownwood, TX

College Station Medical Center  
College Station, TX

Community Medical  
Center Sherman  
Sherman, TX

DeTar Hospital  
Victoria, TX

Gulf Coast Medical Center  
Wharton, TX

Longview Regional Medical Center  
Longview, TX

Medical Center at Terrell  
Terrell, TX

Navarro Regional Hospital  
Corsicana, TX

Pampa Regional Medical Center  
Pampa, TX

Regional Medical Center  
Victoria, TX

San Angelo Community  
Medical Center  
San Angelo, TX

Woodland Heights Medical Center  
Lufkin, TX

**● AMBULATORY SURGERY CENTERS**

**Arizona**

Desert Samaritan Surgicenter  
Mesa, AZ

El Dorado Surgery Center†  
Tucson, AZ

Glendale Samaritan Surgicenter  
Glendale, AZ

Good Samaritan Surgicenter  
Phoenix, AZ

Osborn Ambulatory  
Surgical Center  
Phoenix, AZ

Phoenix Surgicenter  
Phoenix, AZ

Surgicenter Endoscopy  
Phoenix, AZ

Surgicenter Pain Unit  
Phoenix, AZ

Thunderbird Samaritan Surgicenter  
Glendale, AZ

**Kansas**

Surgicenter of Johnson County\*  
Overland Park, KS

**Louisiana**

Surgicare of Lake Charles  
Lake Charles, LA

**Missouri**

Eye Surgery Center\*  
Independence, MO

Surgicenter of Kansas City\*  
Kansas City, MO

**Oklahoma**

SouthCrest Surgery Center†  
Tulsa, OK

**Texas**

Gallagher Park Surgicenter  
Sherman, TX

The Surgical Center  
Bryan, TX

\* Facilities leased to Health Midwest

† Facilities under construction



John Comstock and  
Wendy Seneff, RN

On November 18, 1999, College Station Medical Center was thrust into the national spotlight when several of the most seriously injured survivors of the collapsed Texas A & M bonfire were brought to the Emergency Department. The hospital went into disaster mode at 3:00 a.m. to receive 13 of the 27 students who were wounded when the 60-foot stack of logs collapsed. All but three of the students were treated and released. John Comstock, a 19-year-old freshman from Richardson, TX, was to spend the next 83 days in the Medical Center's Intensive Care Unit. In praising the physicians and nurses who cared for him during his three-month stay, Comstock said, "They are the reason I'm here today." College Station Medical Center's commitment to patient care in this case and many others led to its recognition as the Triad hospital with the highest patient satisfaction score in 1999.



Board of Directors from left: Randall S. Prust, M.D., Gale Sayers, Uwe E. Reinhardt, Thomas G. Loeffler, James D. Shelton, Michael J. Parsons, Marvin Runyon, Dale V. Kesler, Thomas F. Frist III



From left: Donald P. Fay, Michael J. Parsons, Burke W. Whitman

## TRIAD HOSPITALS, INC.

James D. Shelton  
Chairman and Chief Executive Officer

Donald P. Fay  
Executive Vice President, Secretary and General Counsel

Michael J. Parsons  
Executive Vice President and Chief Operating Officer

Burke W. Whitman  
Executive Vice President and Chief Financial Officer

Christopher A. Holden  
Senior Vice President of Operations

William R. Huston  
Senior Vice President of Finance

W. Stephen Love  
Senior Vice President and Controller

Nicholas J. Marzocco  
Senior Vice President of Operations

Wayne McAlister  
Senior Vice President of Operations

Patricia G. Ball  
Vice President of Marketing and Public Relations

Carris R. Boyd  
Vice President of Materials Management

Joy M. Case  
Vice President of Finance

Edward T. Davidson, Jr.  
Vice President of Design and Construction

Karen Flinn  
Vice President of Physician Integration/Managed Care

Tom H. Frazier  
Vice President of Finance

Robert P. Frutiger  
Vice President of Tax

Lisa Gore  
Vice President of Quality and Outcomes

James L. McElhane  
Vice President of Acquisition and Development

Dennis L. McGuffie  
Vice President of Audit Services

Suzanne Miskin  
Vice President of Compliance

Michael G. Newell  
Vice President of Reimbursement Services

Christine M. Rakoci  
Vice President of Business Office Operations

Robert J. Rowntree II, M.D.  
Vice President of Medical Affairs

James B. Shannon  
Vice President of Finance

Michael L. Silhol  
Vice President of Legal Operations

John W. Staab  
Chief Information Officer

Mark A. Stillion  
Vice President of Surgicenter Operations

Rick Thomason  
Vice President of Human Resources



From left: Christopher A. Holden, W. Stephen Love, Nicholas J. Marzocco (standing), Wayne McAlister, William R. Huston, Michael J. Parsons

### *In Memoriam*

**NICHOLAS J. MAMMANA**

Northwest Medical Center  
Tucson, Arizona

Board of Trustees  
February 1986-February 2000  
Chairman, 1988-1994  
Vice Chairman, 1997-2000

“Throughout his 14-year tenure on the Board, Nicholas J. Mammana was instrumental in promoting the growth and quality of care provided by our institution. In addition to Nick’s career as a senior executive with the Bell System, he also served on the faculty of the University of Arizona College of Business & Public Administration. We are deeply indebted to Nick for his longstanding dedication and genuine affection for NMC. Nick will be missed by all who knew and worked with him over the years.”

Jeff Comer, CEO  
Northwest Medical Center  
Tucson, Arizona