UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported): September 24, 2007

COMMUNITY HEALTH SYSTEMS, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	**001-15925**	**13-3893191**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

4000 Meridian Boulevard
Franklin, Tennessee 37067
(Address of Principal Executive Offices, including Zip Code)

(615) 465-7000
(Registrant's Telephone Number, Including Area Code)

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 (see General Instruction A.2. below):

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

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

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

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

Item 8.01. Other Events.

As previously announced, on July 25, 2007, in connection with the Company's acquisition of Triad Hospitals, Inc. (now Triad Healthcare Corporation) ("Triad"), CHS/Community Health Systems, Inc. ("CHS/CHS"), the Company's wholly-owned subsidiary, issued $3,021,331,000 aggregate principal amount of its 8.875% senior notes due 2015 (the "Notes") pursuant to an indenture (the "Indenture") dated as of July 25, 2007 by and among CHS/CHS, the Company, the guarantors party thereto, and U.S. Bank National Association, as trustee. The Notes are senior obligations of CHS/CHS and are guaranteed on a senior basis by the Company and by certain of the Company's subsidiaries.

Also in connection with the acquisition of Triad, the Company entered into a credit agreement (the "New Credit Agreement") with a syndicate of financial institutions with Credit Suisse, as administrative agent and collateral agent, which provides for a new credit facility consisting of a $6,065 million term loan facility with a maturity of seven years, a $400 million delayed draw term loan with a maturity of seven years and a $750 million revolving credit facility with a maturity of six years. Certain of the Company's domestic subsidiaries and, to the extent no adverse tax consequences to the Company would result therefrom, foreign subsidiaries, are guarantors of the New Credit Agreement.

The Company is filing this Current Report on Form 8-K to file the unaudited financial statements of Triad for the three and six months ended June 30, 2007 and to add a footnote to (i) its audited financial statements for the fiscal year ended December 31, 2006, (ii) its unaudited financial statements for the three and six months ended June 30, 2007, and (iii) the audited financial statements of Triad for the fiscal year ended December 31, 2006, as required by Rule 3-10 of Regulation S-X "Financial Statements of Guarantors and Affiliates whose Securities Collateralize an Issue Registered or Being Registered".

Item 9.01. Financial Statements and Exhibits.

The following items are included as Exhibits to this report and incorporated herein by reference:

Exhibit No.	Description
23.1	Consent of Deloitte & Touche LLP.
23.2	Consent of Ernst & Young LLP.
99.1	Consolidated Financial Statements of Community Health Systems, Inc. for the fiscal year ended December 31, 2006, as supplemented on September 24, 2007 by the updating of Note 13, Subsequent Events, and the addition of Note 15, Acquisition of Triad, Related Financing and Supplemental Condensed Consolidating Financial Information.
99.2	Consolidated Financial Statements of Community Health Systems, Inc. for the three and six months ended June 30, 2006, as supplemented on September 24, 2007 by the addition of Note 15, Supplemental Condensed Consolidating Financial Information.
99.3	Consolidated Financial Statements of Triad Hospitals, Inc. (now Triad Healthcare Corporation) for the fiscal year ended December 31, 2006, as supplemented on September 24, 2007 by the addition of Note 22, Supplemental Condensed Financial Information.
99.4	Consolidated Financial Statements of Triad Hospitals, Inc. (now Triad Healthcare Corporation) for the three and six months ended June 30, 2006, as supplemented on September 24, 2007 by the addition of Note 14, Supplemental Condensed Financial Information.

SIGNATURES

According to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

Date: September 24, 2007

COMMUNITY HEALTH SYSTEMS, INC.

By: /s/ Wayne T. Smith
Name: Wayne T. Smith
Title: Chairman, President and Chief Executive Officer

By: /s/ W. Larry Cash
Name: W. Larry Cash
Title: Executive Vice President and Chief Financial Officer

By: /s/ T. Mark Buford
Name: T. Mark Buford
Title: Vice President and Corporate Controller

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-100349, 333-61614, 333-44870, 333-107810, 333-121282, 333-121283, and 333-144525 on Form S-8 of our report dated February 20, 2007 (September 20, 2007 as to Notes 13 and 15) relating to the consolidated financial statements of Community Health Systems, Inc. (which report expresses an unqualified opinion and includes an explanatory paragraph referring to the Company adopting the fair value recognition provisions of Statement of Financial Standards No. 123 (Revised 2004), “Share Based Payment” effective January 1, 2006,) appearing in this current report on Form 8-K dated September 24, 2007 of Community Health Systems, Inc.

/s/ Deloitte & Touche LLP

Nashville, Tennessee
September 20, 2007

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

We consent to the use of our report dated February 27, 2007 (except for Note 22, as to which the date is September 21, 2007), with respect to the consolidated financial statements of Triad Hospitals, Inc., for the year ended December 31, 2006, included in the Community Health Systems, Inc. Current Report on Form 8-K dated September 24, 2007.

/s/ ERNST & YOUNG, LLP

Dallas, Texas
September 21, 2007

Exhibit 99.1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Community Health Systems, Inc.
Franklin, Tennessee

We have audited the accompanying consolidated balance sheets of Community Health Systems, Inc. and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Community Health Systems, Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payment* effective January 1, 2006, which resulted in the Company changing the method in which it accounts for share-based compensation.

/s/ Deloitte & Touche LLP

Nashville, Tennessee
February 20, 2007
(September 20, 2007 as to Notes 13 and 15)

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 2006	2005	2004
	(In thousands, except share and per share data)		
Net operating revenues	$ 4,365,576	$ 3,738,320	$ 3,203,507
Operating costs and expenses:			
Salaries and benefits	1,741,223	1,486,407	1,279,136
Provision for bad debts	547,781	377,596	324,643
Supplies	510,351	448,210	389,584
Rent	97,104	87,210	76,986
Other operating expenses	897,091	765,697	639,037
Minority interest in earnings	2,795	3,104	2,494
Depreciation and amortization	188,771	164,563	149,155
Total operating costs and expenses	3,985,116	3,332,787	2,861,035
Income from operations	380,460	405,533	342,472
Interest expense, net of interest income of $1,779, $5,742 and $526 in 2006, 2005 and 2004, respectively	102,299	94,613	75,256
Loss from early extinguishment of debt	—	—	788
Income from continuing operations before income taxes	278,161	310,920	266,428
Provision for income taxes	106,682	120,782	104,071
Income from continuing operations	171,479	190,138	162,357
Discontinued operations, net of taxes:			
Loss from operations of hospitals sold or held for sale	(657)	(10,505)	(7,279)
Net loss on sale of hospitals	(2,559)	(7,618)	(2,020)
Impairment of long-lived assets of hospital held for sale	—	(4,471)	(1,625)
Loss on discontinued operations	(3,216)	(22,594)	(10,924)
Net income	$ 168,263	$ 167,544	$ 151,433
Earnings per common share—basic:			
Income from continuing operations	$ 1.81	$ 2.15	$ 1.70
Loss on discontinued operations	$ (0.04)	$ (0.26)	$ (0.12)
Net income	$ 1.77	$ 1.89	$ 1.58
Earnings per common share—diluted:			
Income from continuing operations	$ 1.78	$ 2.02	$ 1.62
Loss on discontinued operations	$ (0.03)	$ (0.23)	$ (0.11)
Net income	$ 1.75	$ 1.79	$ 1.51
Weighted average number of shares outstanding:			
Basic	94,983,646	88,601,168	95,643,733
Diluted	96,232,910	98,579,977	105,863,790

See notes to consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2006	December 31, 2005
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 40,566	$ 104,108
Patient accounts receivable, net of allowance for doubtful accounts of $478,565 and $346,024 in 2006 and 2005, respectively	773,984	656,029
Supplies	113,320	95,200
Deferred income taxes	13,249	4,128
Prepaid expenses and taxes	32,385	33,377
Other current assets	47,880	21,367
Total current assets	1,021,384	914,209
Property and equipment:		
Land and improvements	163,988	121,637
Buildings and improvements	1,634,893	1,307,978
Equipment and fixtures	831,485	699,024
	2,630,366	2,128,639
Less accumulated depreciation and amortization	(643,789)	(517,648)
Property and equipment, net	1,986,577	1,610,991
Goodwill	1,336,525	1,259,816
Other assets, net of accumulated amortization of $92,921 and $78,599 in 2006 and 2005, respectively	162,093	149,202
Total assets	$4,506,579	$3,934,218
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 35,396	$ 19,124
Accounts payable	247,747	189,940
Current income taxes payable	7,626	19,811
Accrued liabilities:		
Employee compensation	162,188	121,775
Interest	7,122	8,591
Other	115,204	78,162
Total current liabilities	575,283	437,403
Long-term debt	1,905,781	1,648,500
Deferred income taxes	141,472	157,579
Other long-term liabilities	160,370	126,159
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value per share, 100,000,000 shares authorized; none issued	—	—
Common stock, $.01 par value per share, 300,000,000 shares authorized; 95,026,494 shares issued and 94,050,945 shares outstanding at December 31, 2006 and 94,539,837 shares issued and 93,564,288 shares outstanding at December 31, 2005	950	945
Additional paid-in capital	1,195,947	1,208,930
Treasury stock, at cost, 975,549 shares at December 31, 2006 and 2005	(6,678)	(6,678)
Unearned stock compensation	—	(13,204)
Accumulated other comprehensive income	5,798	15,191
Retained earnings	527,656	359,393
Total stockholders' equity	1,723,673	1,564,577
Total liabilities and stockholders' equity	$4,506,579	$3,934,218

See notes to consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Treasury Stock		Unearned Stock Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount		Shares	Amount				
					(In thousands, except share data)				
BALANCE, December 31, 2003	99,657,532	$ 997	$ 1,315,959	$ (975,549)	$ (6,678)	$ (2)	$ (103)	$ 40,416	$ 1,350,589
Comprehensive Income:									
Net income	—	—	—	—	—	—	—	151,433	151,433
Net change in fair value of interest rate swaps, net of tax expense of $3,459	—	—	—	—	—	—	6,149	—	6,149
Total comprehensive income	—						6,149	151,433	157,582
Repurchase of common stock	(12,000,000)	(120)	(290,400)	—	—	—	—	—	(290,520)
Issuance of common stock in connection with the exercise of options	701,641	7	9,893	—	—	—	—	—	9,900
Issuance of common stock to employee benefit plan	232,560	2	6,151	—	—	—	—	—	6,153
Tax benefit from exercise of options and offering costs	—	—	6,285	—	—	—	—	—	6,285
Earned stock compensation	—	—	—	—	—	2	—	—	2
BALANCE, December 31, 2004	88,591,733	$ 886	$ 1,047,888	(975,549)	$ (6,678)	$ —	$ 6,046	$ 191,849	$ 1,239,991
Comprehensive Income:									
Net income	—	—	—	—	—	—	—	167,544	167,544
Net change in fair value of interest rate swaps, net of tax expense of $5,019	—	—	—	—	—	—	8,923	—	8,923
Net change in fair value of available for sale securities							222	—	222
Total comprehensive income							9,145	167,544	176,689
Repurchases of common stock	(2,239,700)	(22)	(79,830)	—	—	—	—	—	(79,852)
Issuance of common stock in connection with the exercise of options	3,134,721	31	49,543	—	—	—	—	—	49,574
Issuance of common stock in connection with the conversion of convertible debt	4,495,083	44	148,576	—	—	—	—	—	148,620
Restricted stock grant	558,000	6	18,160	—	—	(18,160)	—	—	6
Tax benefit from exercise of options	—	—	24,453	—	—	—	—	—	24,453
Earned stock compensation	—	—	—	—	—	4,956	—	—	4,956
Miscellaneous	—	—	140	—	—	—	—	—	140
BALANCE, December 31, 2005	94,539,837	$ 945	$ 1,208,930	(975,549)	$ (6,678)	$ (13,204)	$ 15,191	$ 359,393	$ 1,564,577
Comprehensive Income:									
Net income	—	—	—	—	—	—	—	168,263	168,263
Net change in fair value of interest rate swaps, net of tax benefit of $931	—	—	—	—	—	—	(1,654)	—	(1,654)
Net change in fair value of available for sale securities	—	—	—	—	—	—	562	—	562
Adjustment to adopt FASB statement No. 158, net of tax benefit of $5,465	—	—	—	—	—	—	(8,301)	—	(8,301)
Total comprehensive income							(9,393)	168,263	158,870
Repurchases of common stock	(5,000,000)	(50)	(176,265)	—	—	—	—	—	(176,315)
Issuance of common stock in connection with the exercise of options	867,833	9	14,564	—	—	—	—	—	14,573
Issuance of common stock in connection with the conversion of convertible debt	4,074,510	41	137,157	—	—	—	—	—	137,198
Restricted stock grant	—	—	—	—	—	—	—	—	—
Tax benefit from exercise of options	—	—	4,750	—	—	—	—	—	4,750
Earned stock compensation	544,314	5	20,068	—	—	—	—	—	20,073
Reclassification of unearned stock compensation	—	—	(13,257)	—	—	13,204	—	—	(53)
BALANCE, December 31, 2006	95,026,494	$ 950	$ 1,195,947	(975,549)	$ (6,678)	$ —	$ 5,798	$ 527,656	$ 1,723,673

See notes to consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2006	2005	2004
		(In thousands)	
Cash flows from operating activities:			
Net income	$ 168,263	$ 167,544	$ 151,433
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	188,771	166,162	158,380
Deferred income taxes	(25,228)	9,889	41,902
Stock compensation expense	20,073	4,957	2
Excess tax benefits relating to stock-based compensation	(6,819)	—	—
Loss on early extinguishment of debt	—	—	788
Minority interest in earnings	2,795	3,104	1,578
Impairment on hospital held for sale	—	6,718	2,539
Loss on sale of hospitals	3,937	6,295	2,186
Other non-cash expenses, net	500	740	669
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:			
Patient accounts receivable	(71,141)	(47,455)	(31,814)
Supplies, prepaid expenses and other current assets	(4,544)	(16,838)	(13,549)
Accounts payable, accrued liabilities and income taxes	52,151	84,956	(24,371)
Other	21,497	24,977	36,007
Net cash provided by operating activities	350,255	411,049	325,750
Cash flows from investing activities:			
Acquisitions of facilities and other related equipment	(384,618)	(158,379)	(133,033)
Purchases of property and equipment	(224,519)	(188,365)	(164,286)
Disposition of hospitals	750	51,998	7,850
Proceeds from sale of equipment	4,480	2,325	790
Increase in other assets	(36,350)	(34,851)	(29,800)
Net cash used in investing activities	(640,257)	(327,272)	(318,479)
Cash flows from financing activities:			
Proceeds from exercise of stock options	14,573	49,580	9,900
Proceeds from issuance of senior subordinated notes	—	—	300,000
Stock buy-back	(176,316)	(79,853)	(290,520)
Deferred financing costs	(2,153)	(1,259)	(12,783)
Excess tax benefits relating to stock-based compensation	6,819	—	—
Redemption of convertible notes	(128)	(298)	—
Proceeds from minority investors in joint ventures	6,890	1,383	—
Redemption of minority investments in joint ventures	(915)	(3,242)	(3,522)
Distribution to minority investors in joint ventures	(3,220)	(1,939)	(1,238)
Borrowings under Credit Agreement	1,031,000	—	1,725,768
Repayments of long-term indebtedness	(650,090)	(26,539)	(1,668,709)
Net cash (used in) provided by financing activities	226,460	(62,167)	58,896
Net change in cash and cash equivalents	(63,542)	21,610	66,167
Cash and cash equivalents at beginning of period	104,108	82,498	16,331
Cash and cash equivalents at end of period	$ 40,566	$ 104,108	$ 82,498

See notes to consolidated financial statements.

1. Business and Summary of Significant Accounting Policies

Business. Community Health Systems, Inc., through its subsidiaries (collectively the “Company”), owns, leases and operates acute care hospitals that are the principal providers of primary healthcare services in non-urban communities. As of December 31, 2006, the Company owned, leased or operated 77 hospitals, licensed for 9,117 beds in 22 states. Pennsylvania represents the only area of geographic concentration; net operating revenues generated by the Company’s hospitals in that state, as a percentage of consolidated net operating revenues, were 21.0% in 2006, 22.1% in 2005 and 19.0% in 2004.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates under different assumptions or conditions.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are controlled by the Company through majority voting control. All significant intercompany accounts and transactions have been eliminated. Certain of the subsidiaries have minority stockholders. The amount of minority interest in equity is not material and is included in other long-term liabilities on the consolidated balance sheets and minority interest in income or loss is disclosed separately on the consolidated statements of income.

Cost of Revenue. The majority of the Company’s operating expenses are “cost of revenue” items. Operating costs that could be classified as general and administrative by the Company would include the Company’s corporate office costs, which were $88.9 million, $67.5 million and $47.9 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Cash Equivalents. The Company considers highly liquid investments with original maturities of three months or less to be cash equivalents.

Supplies. Supplies, principally medical supplies, are stated at the lower of cost (first-in, first-out basis) or market.

Marketable Securities. The Company accounts for marketable securities in accordance with the provisions of Statement of Financial Accounting Standards No. 115, “Accounting for Certain Investments in Debt and Equity Securities” (“SFAS 115”). Currently, all of the Company’s marketable securities are classified as available-for-sale. Available-for-sale securities are carried at fair value as determined by quoted market prices, with unrealized gains and losses reported as a separate component of stockholders’ equity. Interest and dividends on securities classified as available-for-sale are included in net revenue. Accumulated other comprehensive income included an unrealized gain of $0.6 million and $0.2 million at December 31, 2006 and December 31, 2005, respectively, related to these available-for-sale securities. The gross realized gains and losses from the sale of available-for-sale securities were not material in all periods presented.

Property and Equipment. Property and equipment are recorded at cost. Depreciation is recognized using the straight-line method over the estimated useful lives of the land and improvements (2 to 15 years; weighted-average useful life is 14 years), buildings and improvements (5 to 40 years; weighted-average useful life is 24 years) and equipment and fixtures (4 to 18 years; weighted-average useful life is 8 years). Costs capitalized as construction in progress were $61.2 million and $54 million at December 31, 2006 and 2005, respectively. Expenditures for renovations and other significant improvements are capitalized; however, maintenance and repairs which do not improve or extend the useful lives of the respective assets are charged to operations as incurred. Interest capitalized in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 34, “Capitalization of Interest Cost,” was $3.0 million for the year ended December 31, 2006, and $2.1 million for each of the years ended December 31, 2005 and 2004.

The Company also leases certain facilities and equipment under capital leases (see Notes 3 and 8). Such assets are amortized on a straight-line basis over the lesser of the term of the lease or the remaining useful lives of the applicable assets.

Goodwill. Goodwill represents the excess cost over the fair value of net assets acquired. Goodwill arising from business combinations is accounted for under the provisions of SFAS No. 141, “Business Combinations,” and SFAS No. 142, “Goodwill and Other Intangible Assets,” and is not amortized. SFAS No. 142 requires goodwill to be evaluated for impairment at the same time every year and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. The Company selected September 30th as its annual testing date.

Other Assets. Other assets consist of costs associated with the issuance of debt, which are included in interest expense over the life of the related debt using the effective interest method, and costs to recruit physicians to the Company’s markets, which are deferred and amortized in amortization expense over the term of the respective physician recruitment contract, which is generally three years.

Third-Party Reimbursement. Net operating revenues include amounts estimated by management to be reimbursable by Medicare and Medicaid under prospective payment systems, provisions of cost-reimbursement and other payment methods. Approximately 42% of net operating revenues for the year ended December 31, 2006, 43% of net operating revenues for the year ended December 31, 2005 and 42% of net operating revenues for the year ended December 31, 2004, are related to services rendered to patients covered by the Medicare and Medicaid programs. Included in the amounts received from Medicare are approximately 0.44% of net operating revenues for 2006, 0.47% for 2005 and 0.45% for 2004 related to Medicare outlier payments. In addition, the Company is reimbursed by non-governmental payors using a variety of payment methodologies. Amounts received by the Company for treatment of patients covered by such programs are generally less than the standard billing rates. The differences between the estimated program reimbursement rates and the standard billing rates are accounted for as contractual adjustments, which are deducted from gross revenues to arrive at net operating revenues. Final settlements under certain of these programs are subject to adjustment based on administrative review and audit by third parties. Adjustments to the estimated billings are recorded in the periods that such adjustments become known. Adjustments to previous program reimbursement estimates are accounted for as contractual allowance adjustments and reported in the periods in which final settlements are determined. Adjustments related to final settlements or appeals increased revenue by an insignificant amount in each of the years ended December 31, 2006, 2005 and 2004. Amounts due to third-party payors were $55 million as of December 31, 2006 and $43 million as of December 31, 2005 and are included in accrued liabilities—other in the accompanying consolidated balance sheets. Substantially all Medicare and Medicaid cost reports are final settled through 2004.

Allowance for Doubtful Accounts. Accounts receivable are reduced by an allowance for amounts that could become uncollectible in the future. Substantially all of the Company’s receivables are related to providing healthcare services to its hospitals’ patients.

The Company experienced a significant increase in self-pay volume and related revenue, combined with lower cash collections during the quarter ended September 30, 2006. The Company believes this trend reflects an increased collection risk from self-pay accounts, and as a result the Company performed a review and an alternative analysis of the adequacy of its allowance for doubtful accounts. Based on this review, the Company recorded a $65 million increase to its allowance for doubtful accounts to maintain an adequate allowance for doubtful accounts as of September 30, 2006. The Company believes that the increase in self-pay accounts is a result of current economic trends, including an increase in the number of uninsured patients, reduced enrollment under Medicaid programs such as Tenncare, and higher deductibles and co-payments for patients with insurance.

In conjunction with recording a $65 million increase to the allowance for doubtful accounts, the Company changed its methodology for estimating its allowance for doubtful accounts effective September 30, 2006, as follows: The Company will reserve a percentage of all self-pay accounts receivable without regard to aging category, based on collection history adjusted for expected recoveries and, if present, other changes in trends. For all other payor categories the Company will reserve 100% of all accounts aging over 365 days from the date of discharge. Previously, the Company estimated its allowance for doubtful accounts by reserving all accounts aging over 150 days from the date of discharge without regard to payor class. The Company believes its revised methodology provides a better approach to reflect changes in payor mix and historical collection patterns and to respond to changes in trends. The revised accounting methodology and the adequacy of resulting estimates will continue to be reviewed by monitoring historical cash collections as a percentage of trailing net revenues less provision for bad debts, as well as analyzing current period net revenue and admissions by payor classification, aged accounts receivable by payor, days revenue outstanding, and the impact of recent acquisitions and dispositions.

The effect of this change in estimate was to increase the allowance for doubtful accounts by $65 million which resulted in an after tax decrease of income from continuing operations of $40 million, or $0.42 per share (diluted) for the year ended December 31, 2006.

Concentrations of Credit Risk. The Company grants unsecured credit to its patients, most of whom reside in the service area of the Company's facilities and are insured under third-party payor agreements. Because of the economic diversity of the Company's facilities and non-governmental third-party payors, Medicare represents the only significant concentration of credit risk from payors. The following table presents accounts receivable, net of the related contractual allowance (in thousands):

	As of December 31,			
	2006		2005	
	Medicare	Medicaid, Managed Care, Self-pay and Other	Medicare	Medicaid, Managed Care, Self-pay and Other
Gross accounts receivable	$ 499,419	$ 1,773,775	$ 433,369	$ 1,455,716
Contractual allowance	(382,614)	(638,031)	(349,807)	(537,225)
Accounts receivable, net of contractual allowance	$ 116,805	$ 1,135,744	$ 83,562	$ 918,491

Net Operating Revenues. Net operating revenues are recorded net of provisions for contractual allowance of approximately $10,569 million, $8,893 million and $7,214 million in 2006, 2005 and 2004, respectively. Net operating revenues are recognized when services are provided. In the ordinary course of business the Company renders services to patients who are financially unable to pay for hospital care. Included in the provision for contractual allowance shown above, is the value (at the Company's standard charges) of these services to patients who are unable to pay that is eliminated from net operating revenues when it is determined they qualify under the Company's charity care policy. The value of these services was $222.9 million, $182.3 million and $133.4 million for the years ended December 31, 2006, 2005 and 2004, respectively. Also included in the provision for contractual allowance shown above is the value of administrative discounts provided to self-pay patients eliminated from net operating revenues which was $107.7 million, $82.5 million and $59.7 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Professional Liability Insurance Claims. The Company accrues for estimated losses resulting from professional liability. The accrual, which includes an estimate for incurred but not reported claims, is based on historical loss patterns and actuarially determined projections and is discounted to its net present value. To the extent that subsequent claims information varies from management's estimates, the liability is adjusted currently.

Accounting for the Impairment or Disposal of Long-Lived Assets. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," whenever events or changes in circumstances indicate that the carrying values of certain long-lived assets may be impaired, the Company projects the undiscounted cash flows expected to be generated by these assets. If the projections indicate that the reported amounts are not expected to be recovered, such amounts are reduced to their estimated fair value based on a quoted market price, if available, or an estimate based on valuation techniques available in the circumstances.

Income Taxes. The Company accounts for income taxes under the asset and liability method, in which deferred income tax assets and liabilities are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in the consolidated statement of income during the period in which the tax rate change becomes law.

Comprehensive Income. Comprehensive income is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources.

Accumulated Other Comprehensive Income consists of the following (in thousands):

	Change in Fair Value of Interest Rate Swaps	Change in Fair Value of Available for Sale Securities	Adjustment to Pension Liability	Accumulated Other Comprehensive Income
Balance as of December 31, 2004	$ 6,046	$ —	$ —	$ 6,046
2005 Activity, net of tax	8,923	222	—	9,145
Balance as of December 31, 2005	14,969	222	—	15,191
2006 Activity, net of tax	(1,654)	562	(8,301)	(9,393)
Balance as of December 31, 2006	$ 13,315	$ 784	$ (8,301)	$ 5,798

Segment Reporting. SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires that a public company report annual and interim financial and descriptive information about its reportable operating segments. Operating segments, as defined, are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. SFAS No. 131 allows aggregation of similar operating segments into a single operating segment if the businesses have similar economic characteristics and are considered similar under the criteria established by SFAS No. 131. The Company's operating segments have similar services, have similar types of patients, operate in a consistent manner and have similar economic and regulatory characteristics. Therefore, the Company has aggregated its operating segments into one reportable segment.

Derivative Instruments and Hedging Activities. In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, the Company records derivative instruments (including certain derivative instruments embedded in other contracts) on the consolidated balance sheet as either an asset or liability measured at its fair value. Changes in a derivative's fair value are recorded each period in earnings or other comprehensive income, or OCI, depending on whether the derivative is designated and is effective as a hedged transaction, and on the type of hedge transaction. Changes in the fair value of derivative instruments recorded to OCI are reclassified to earnings in the period affected by the underlying hedged item. Any portion of the fair value of a derivative instrument determined to be ineffective under the standard is recognized in current earnings.

The Company has entered into several interest rate swap agreements subject to the scope of this pronouncement. See Note 6 for further discussion about the swap transactions.

New Accounting Pronouncements. In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" (FIN 48), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 as of January 1, 2007. The adoption of this interpretation will not have a material effect on the Company's consolidated results of operations or consolidated financial position.

Reclassifications. Certain prior year amounts have been reclassified to conform to current year presentation. The Company disposed of four hospitals in March 2005, one lease expired pursuant to its terms during the quarter ended March 31, 2005, designated one hospital as being held for sale in the second quarter of 2005 which was sold during the first quarter 2006 and disposed of two hospitals in August 2004. The operating results of those hospitals have been classified as discontinued operations on the consolidated statements of income for all periods presented. There is no effect on net income for all periods presented related to the reclassifications made for the discontinued operations.

2. Accounting for Stock-Based Compensation

The Company adopted the provisions of SFAS No. 123(R), "Share-Based Payment," ("SFAS No. 123(R)") on January 1, 2006, electing to use the modified prospective method for transition purposes. The modified prospective method requires that compensation expense be recorded for all unvested stock options and share awards that subsequently vest or are modified, without restatement of prior periods. Prior to January 1, 2006, the Company accounted for stock-based compensation using the recognition and measurement principles of APB Opinion No. 25 and provided the pro forma disclosure requirements of SFAS No. 123 "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosures—an Amendment of FASB Statement No. 123." Under APB Opinion No. 25, when the exercise price of the Company's stock was equal to the market price of the underlying stock on the date of grant, no compensation expense was recognized.

The pro forma table below reflects net income and earnings per share had the Company applied the fair value recognition provisions of SFAS No. 123, for each of the two years ended prior to the adoption of SFAS No. 123(R) (in thousands, except per share data):

	Year Ended 2005	Year Ended 2004
Net Income:	$167,544	$151,433
Add: Stock-Based compensation expense recognized under APB 25, net of tax	3,493	—
Deduct: Total stock-based compensation under fair value based method for all awards, net of tax	$ 14,232	$ 6,601
Pro-forma net income	$156,805	$144,832
Net income per share:		
Basic — as reported	$ 1.89	$ 1.58
Basic — pro forma	$ 1.77	$ 1.51
Diluted — as reported	$ 1.79	$ 1.51
Diluted — pro forma	$ 1.68	$ 1.45

For purposes of the above table the fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants during each of the years ended December 31:

	Year Ended 2005	Year Ended 2004
Expected volatility	36%	33%
Expected dividends	0	0
Expected term	4 years	4 years
Risk-free interest rate	3.88%	3.16%

On September 22, 2005 the Compensation Committee of the Board of Directors of Community Health Systems, Inc. approved an immediate acceleration of the vesting of unvested stock options awarded to employees and officers, including executive officers, on each of three grant dates, December 10, 2002, February 25, 2003, and May 22, 2003. Each of the grants accelerated had a three-year vesting period and would have otherwise become fully vested on their respective anniversary dates no later than May 22, 2006. All other terms and conditions applicable to the outstanding stock option grants remain in effect. A total of 1,235,885 stock options, with a weighted exercise price of $20.26 per share, were accelerated.

The accelerated options were issued under the Community Health Systems, Inc. Amended and Restated 2000 Stock Option and Award Plan (the “Plan”). No performance shares or units or incentive stock options have been granted under the Plan. Options granted to non-employee directors of the Company and restricted shares were not affected by this action. The Compensation Committee’s decision to accelerate the vesting of the affected options was based primarily on the relatively short period of time until such stock options otherwise become fully vested making them no longer a significant motivator for retention and the fact the Company anticipated that up to approximately $3.8 million of compensation expense ($2.3 million, net of tax) associated with certain of these stock options would have otherwise been recognized in the first two quarters of 2006 pursuant to Statement of Financial Accounting Standards (“SFAS”) No. 123 (revised 2004), “Share-Based Payment,” would be avoided.

Since the Company accounted for its stock options prior to January 1, 2006 using the intrinsic value method of accounting prescribed in APB No. 25, the accelerated vesting did not result in the recognition of compensation expense in net income for the year ended December 31, 2005. However, in accordance with the disclosure requirements of SFAS No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure — an Amendment of FASB Statement No. 123”, the pro forma results presented in the table above include approximately $5.9 million ($3.6 million, net of tax) of compensation expense for the year ended December 31, 2005, resulting from the vesting acceleration.

Stock-based compensation awards are granted under the Community Health Systems, Inc. Amended and Restated 2000 Stock Option and Award Plan (the “2000 Plan”). The 2000 Plan allows for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code as well as stock options which do not so qualify, stock appreciation rights, restricted stock, performance units and performance shares, phantom stock awards and share awards. Persons eligible to receive grants under the 2000 Plan include the Company’s directors, officers, employees and consultants. To date, the options granted under the 2000 Plan are “nonqualified” stock options for tax purposes. Vesting of these granted options occurs in one third increments on each of the first three anniversaries of the award date. Options granted prior to 2005 have a 10-year contractual term and options granted in 2005 and 2006 have an 8 year contractual term. The exercise price of options granted to employees under the 2000 Plan were equal to the fair value of the Company’s common stock on the option grant date. As of December 31, 2006, 5,954,865 shares of common stock remain reserved for future grants under the 2000 Plan. The Company also has options outstanding under its Employee Stock Option Plan (the “1996 Plan”). These options are fully vested and exercisable and no additional grants of options will be made under the 1996 Plan.

The following table reflects the impact of total compensation expense related to stock-based equity plans under SFAS No. 123(R) for periods beginning January 1, 2006 and under APB 25 for periods prior to January 1, 2006, on the reported operating results for the respective periods (in thousands, except per share data):

	Year Ended December 31,		
	2006	2005	2004
Effect on income from continuing operations before income taxes	$ (19,851)	$ (4,960)	$ —
Effect on net income	$ (12,549)	$ (3,493)	$ —
Effect on net income per share-diluted	$ (0.13)	$ (0.04)	$ —

SFAS No. 123(R) also requires the benefits of tax deductions in excess of the recognized tax benefit on compensation expense to be reported as a financing cash flow, rather than as an operating cash flow as required under APB 25 and related interpretations. This requirement reduced the Company’s net operating cash flows and increased the Company’s financing cash flows by $6.8 million for the year ended December 31, 2006. In addition, the Company’s deferred compensation cost at December 31, 2005, of $13.2 million, arising from the issuance of restricted stock in 2005 and recorded as a component of stockholders’ equity as required under APB 25, was reclassified into additional paid-in capital upon the adoption of SFAS No. 123(R).

At December 31, 2006, $36.8 million of unrecognized stock-based compensation expense from all outstanding unvested stock options and restricted stock is expected to be recognized over a weighted-average period of 20 months. There were no modifications to awards during 2006.

The fair value of stock options was estimated using the Black-Scholes option pricing model with the assumptions and weighted-average fair values during the year ended December 31, 2006, as follows:

	Year Ended December 31, 2006
Expected volatility	24.2%
Expected dividends	0
Expected term	4 years
Risk-free interest rate	4.67%

As part of adopting SFAS No. 123(R), the Company examined concentrations of holdings, its historical patterns of option exercises and forfeitures, as well as forward-looking factors, in an effort to determine if there were any discernable employee populations. From this analysis, the Company identified two employee populations, one consisting primarily of certain senior executives and the other consisting of all other recipients.

The expected volatility rate was estimated based on historical volatility. As part of adopting SFAS No. 123(R), the Company also reviewed the market based implied volatility of actively traded options of its common stock and determined that historical volatility did not differ significantly from the implied volatility.

The expected life computation is based on historical exercise and cancellation patterns and forward-looking factors, where present, for each population identified. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. The pre-vesting forfeiture rate is based on historical rates and forward looking factors for each population identified. As required under SFAS No. 123(R), the Company will adjust the estimated forfeiture rate to its actual experience.

Options outstanding and exercisable under the 1996 Plan and 2000 Plan as of December 31, 2006, and changes during each of the three years then ended were as follows (in thousands, except share and per share data):

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value as of December 31, 2006
Outstanding at December 31, 2003	8,029,370	$ 17.59		
Granted	387,000	26.41		
Exercised	(614,444)	15.19		
Forfeited and canceled	(345,647)	22.25		
Outstanding at December 31, 2004	7,456,279	18.03		
Granted	1,325,700	33.02		
Exercised	(3,134,721)	15.81		
Forfeited and canceled	(276,984)	26.02		
Outstanding at December 31, 2005	5,370,274	22.63		
Granted	1,151,000	38.07		
Exercised	(865,833)	16.47		$ 18,200
Forfeited and canceled	(172,913)	34.02		
Outstanding at December 31, 2006	5,482,528	$ 26.48	6.8 years	$ 56,941
Exercisable at December 31, 2006	3,562,002	$ 21.55	6.3 years	$ 53,391

The weighted-average grant date fair value of stock options granted during the year ended December 31, 2006, was $10.38. The aggregate intrinsic value (the number of in-the-money stock options multiplied by the difference between the Company's closing stock price on the last trading day of the reporting period and the exercise price of the respective stock options) in the table above represents the amount that would have been received by the option holders had all option holders exercised their options on December 31, 2006. This amount changes based on the market value of the Company's common stock.

The Company has also awarded restricted stock under the 2000 Plan to various employees and its directors. The restrictions on these shares generally lapse in one-third increments on each of the first three anniversaries of the award date. Certain of the restricted stock awards granted to the Company's senior executives also contain a performance objective that must be met in addition to the vesting requirements. If the performance objective is not attained the awards will be forfeited in their entirety. Once the performance objective has been attained, restrictions will lapse in one-third increments on each of the first three anniversaries of the award date. Notwithstanding the above-mentioned performance objectives and vesting requirements, the restrictions will lapse earlier in the event of death, disability, termination of employment by employer for reason other than for cause of the holder of the restricted stock or in the event of change in control of the Company. Restricted stock awards subject to performance standards are not considered outstanding for purposes of determining earnings per share until the performance objectives have been satisfied.

Restricted stock outstanding under the 2000 Plan as of December 31, 2006, and changes during each of the two years then ended are as follows:

	Shares	Weighted Average Fair Value
Unvested at December 31, 2004	—	$ —
Granted	563,000	32.37
Vested	—	—
Forfeited	(5,000)	32.37
Unvested at December 31, 2005	558,000	$ 32.37
Granted	606,000	38.26
Vested	(185,975)	32.43
Forfeited	(8,334)	35.93
Unvested at December 31, 2006	969,691	$ 36.05

As of December 31, 2006, there was $23.4 million of unrecognized stock-based compensation expense related to unvested restricted stock expected to be recognized over a weighted-average period of 21 months.

Under the Director's Fee Deferral Plan, the Company's outside directors may elect to receive share equivalent units in lieu of cash for their director's fee. These units are held in the plan until the director electing to receive the share equivalent units retires or otherwise terminates his/her directorship with the Company. Share equivalent units are converted to shares of common stock of the Company at the time of distribution. The following table represents the amount of directors' fees which were deferred and the equivalent units into which they converted for each of the respective periods:

	Year Ended December 31,	
	2006	2005
Directors' fees earned and deferred into plan	$ 177,500	$ 184,500
Equivalent units	4,843.449	4,942.552

At December 31, 2006, there are a total of 9,786.001 units deferred in the plan with an aggregate fair value of $357,385, based on the closing market price of the Company's common stock at December 31, 2006 of $36.52.

3. Long-Term Leases, Acquisitions and Divestitures of Hospitals

During 2006, the Company acquired through 7 separate purchase transactions and three capital lease transactions, substantially all of the assets and working capital of eight hospitals and three home health agencies. On March 1, 2006, the Company acquired, through a combination of purchasing certain assets and entering into a capital lease for other related assets, Forrest City Hospital, a 118-bed hospital located in Forrest City, Arkansas. On April 1, 2006, the Company completed the acquisition of two hospitals from Baptist Health System, Birmingham, Alabama: Baptist Medical Center — DeKalb (134 beds) and Baptist Medical Center — Cherokee (60 beds). On May 1, 2006, the Company acquired Via Christi Oklahoma Regional Medical Center, a 140-bed hospital located in Ponca City, Oklahoma. On June 1, 2006, the Company acquired Mineral Area Regional Medical Center, a 135-bed hospital located in Farmington, Missouri. On June 30, 2006 the Company acquired Cottage Home Options, a home health agency and related business, located in Galesburg, Illinois. On July 1, 2006, the Company acquired the healthcare assets of Vista Health, which included Victory Memorial Hospital (336 beds) and St. Therese Medical

Center (71 non-acute care beds), both located in Waukegan, Illinois. On September 1, 2006, the Company acquired Humble Texas Home Care, a home health agency located in Humble, Texas. On October 1, 2006, the Company acquired Helpsource Home Health, a home health agency located in Wichita Falls, Texas. On November 1, 2006 the Company acquired through two separate capital lease transactions, Campbell Memorial Hospital, a 99-bed hospital located in Weatherford, Texas and Union County Hospital, a 25-bed hospital located in Anna, Illinois. The aggregate consideration for these eight hospitals and three home health agencies totaled approximately $385.7 million, of which $353.8 million was paid in cash and $31.9 million was assumed in liabilities. Goodwill recognized in these transactions totaled $65.6 million, which is expected to be fully deductible for tax purposes.

Effective March 18, 2006, the Company sold Highland Medical Center, a 123-bed facility located in Lubbock, Texas, to Shiloh Health Services, Inc. of Louisville, Kentucky. The proceeds from this sale were $0.5 million. This hospital had previously been classified as held for sale.

Effective January 31, 2005, the Company's lease of Scott County Hospital, a 99-bed facility located in Oneida, Tennessee, expired pursuant to its terms.

Effective March 31, 2005, the Company sold The King's Daughters Hospital, a 137-bed facility located in Greenville, Mississippi, to Delta Regional Medical Center, also located in Greenville, Mississippi. In a separate transaction, also effective March 31, 2005, the Company sold Troy Regional Medical Center, a 97-bed facility located in Troy, Alabama, Lakeview Community Hospital, a 74-bed facility located in Eufaula, Alabama and Northeast Medical Center, a 75-bed facility located in Bonham, Texas to Attentus Healthcare Company of Brentwood, Tennessee. The aggregate sales price for these four hospitals was approximately $52 million and was received in cash.

During 2005, the Company acquired through four separate purchase transactions and one capital lease transaction, substantially all of the assets and working capital of five hospitals. On March 1, 2005, the Company acquired an 85% controlling interest in Chestnut Hill Hospital, a 222-bed hospital located in Philadelphia, Pennsylvania. On June 30, 2005, the Company acquired, through a capital lease, Bedford County Medical Center, a 104-bed hospital located in Shelbyville, Tennessee. On September 30, 2005, the Company acquired the assets of Newport Hospital and Clinic located in Newport, Arkansas. This facility, which was previously operated as an 83-bed acute care general hospital, was closed by its former owner simultaneous with this transaction. The operations of this hospital were consolidated with Harris Hospital, also located in Newport, which is owned and operated by a wholly owned subsidiary of the Company. On October 1, 2005, the Company acquired Sunbury Community Hospital, a 123-bed hospital located in Sunbury, Pennsylvania, and Bradley Memorial Hospital, a 251-bed hospital located in Cleveland, Tennessee. The aggregate consideration for the five hospitals totaled approximately $176 million, of which $138 million was paid in cash and $38 million was assumed in liabilities. Goodwill recognized in these transactions totaled approximately $51 million, which is expected to be fully deductible for tax purposes.

In connection with the above actions and in accordance with SFAS No. 144, the Company has classified the results of operations of Randolph County Medical Center, Sabine Medical Center, Scott County Hospital, The King's Daughters Hospital, Troy Regional Medical Center, Lakeview Community Hospital, Northeast Medical Center and Highland Medical Center as discontinued operations in the accompanying consolidated statements of income. The consolidated statements of income for each period presented have been restated to reflect the classification of these eight hospitals as discontinued operations.

Net operating revenues and loss reported for the eight hospitals in discontinued operations are as follows:

	Year Ended December 31, 2006	2005	2004
		(In thousands)	
Net operating revenues:	$ 4,294	$ 50,520	$156,711
Loss from operations of hospitals sold or held for sale before income taxes	(1,008)	(16,141)	(11,039)
Loss on sale of hospitals	(3,938)	(6,295)	(2,186)
Impairment of long-lived assets of hospital held for sale	—	(6,718)	(2,539)
Loss from discontinued operations, before taxes	(4,946)	(29,154)	(15,764)
Income tax benefit	1,730	6,560	4,840
Loss from discontinued operations, net of tax	$ (3,216)	$ (22,594)	$ (10,924)

The computation of loss from discontinued operations, before taxes, for the year ended December 31, 2006, includes the net write-off of $4.4 million of tangible assets at the one hospital sold during the year ended December 31, 2006.

The computation of loss from discontinued operations, before taxes, for the year ended December 31, 2005, includes the net write-off of $51.5 million of tangible assets and $17.1 million of goodwill of the four hospitals sold and one hospital designated as held for sale in the second quarter of 2005.

Included in the computation of the loss from discontinued operations, before taxes for the year ended December 31, 2004, is a write-off of $7 million of tangible assets and $2.7 million of goodwill at the two hospitals sold (see Note 4 Goodwill and Other Intangible Assets) and a write-down of $3 million of assets at the hospital held for sale.

Assets and liabilities of the hospitals classified as discontinued operations included in the accompanying consolidated balance sheets are as follows. There are no material assets or liabilities related to these hospitals remaining at December 31, 2006.

	December 31, 2005
	(In thousands)
Current assets	$ 4,133
Property and equipment	—
Other assets	3,000
Current liabilities	(6,601)
Net assets	$ 532

During 2004, the Company acquired, through two separate purchase transactions, most of the assets and working capital of two hospitals. On July 1, 2004, the Company acquired Galesburg Cottage Hospital, a 170-bed facility located in Galesburg, Illinois. On August 1, 2004, the Company acquired Phoenixville Hospital, a 143-bed facility located in Phoenixville, Pennsylvania. This acquisition also included a 95,000 square foot medical complex in nearby Limerick, Pennsylvania which houses an ambulatory surgical facility, an imaging center and medical office space. The aggregate consideration for the two hospitals totaled approximately $135 million, consisting of approximately $123 million in cash and approximately $12 million in assumed liabilities and acquisition costs. Goodwill recorded during 2004 is expected to be fully deductible for tax purposes.

Effective August 1, 2004, the Company sold Randolph County Medical Center, a 50 bed facility located in Pocahontas, Arkansas and Sabine Medical Center, a 48 bed facility located in Many, Louisiana, two of the Company's underperforming hospitals, to Associated Healthcare Systems in Brentwood, Tennessee. The aggregate sales price for these two hospitals was approximately $9.0 million of which $7.8 million was received in cash and $1.2 million was received in the form of a note, which was paid in full in 2005.

The aforementioned acquisitions were accounted for using the purchase method of accounting. The allocation of the purchase price has been determined by the Company based upon available information and, for certain acquisition transactions closed in 2006, is subject to settling amounts related to purchased working capital and in some instances final appraisals. Independent asset valuations are generally completed within 120 days of the date of acquisition; working capital settlements are generally made within 180 days of the date of acquisition. Adjustments to the purchase price allocation are not expected to be material.

The table below summarizes the allocations of the purchase price (including assumed liabilities) for these acquisitions (in thousands):

	2006	2005	2004
Current assets	$ 56,896	$ 19,144	$10,104
Property and equipment	262,335	110,854	76,917
Goodwill and other intangibles	66,490	43,619	49,048

The operating results of the foregoing hospitals have been included in the consolidated statements of income from their respective dates of acquisition. The following pro forma combined summary of operations of the Company gives effect to using historical information of the operations of the hospitals purchased in 2006 and 2005 as if the acquisitions had occurred as of January 1, 2005 (in thousands except per share data):

	Year Ended December 31,	
	2006	2005
Pro forma net operating revenues	$ 4,569,861	$ 4,307,657
Pro forma net income	159,940	138,940
Pro forma net income per share:		
Basic	1.68	1.57
Diluted	1.66	1.50

4. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill are as follows (in thousands):

	Year Ended December 31,	
	2006	2005
Balance, beginning of year	$ 1,259,816	$ 1,213,783
Goodwill acquired as part of acquisitions during the year	67,550	51,773
Consideration adjustments and finalization of purchase price allocations for prior year's acquisitions	9,159	11,353
Goodwill written off as part of disposals	—	(17,093)
Balance, end of year	$ 1,336,525	$ 1,259,816

The Company performed its initial goodwill evaluation, as required by SFAS No. 142, during the first quarter of 2002 and the annual evaluation as of each succeeding September 30th. No impairment was indicated by these evaluations.

The gross carrying amount of the Company's other intangible assets was $13.7 million as of December 31, 2006 and $11.9 million as of December 31, 2005, and the net carrying amount was $7.4 million and $7.6 million as of December 31, 2006 and 2005, respectively. Other intangible assets are included in other assets on the Company's consolidated balance sheets.

The weighted average amortization period for the intangible assets subject to amortization is approximately 5 years. There are no expected residual values related to these intangible assets. Amortization expense for these intangible assets was $1.9 million, $1.3 million and $1.1 million during the years ended December 31, 2006, 2005 and 2004, respectively. Amortization expense on intangible assets is estimated to be $1.8 million in 2007, $1.2 million in 2008, $0.9 million in 2009, $0.8 million in 2010 and $0.5 million in 2011.

5. Income Taxes

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

	Year Ended December 31,		
	2006	2005	2004
Current			
Federal	$ 113,823	$100,588	$ 55,184
State	13,555	12,746	9,003
	127,378	113,334	64,187
Deferred			
Federal	(18,586)	5,737	33,994
State	(2,110)	1,711	5,890
	(20,696)	7,448	39,884
Total provision for income taxes for income from continuing operations	$ 106,682	$120,782	$104,071

The following table reconciles the differences between the statutory federal income tax rate and the effective tax rate (dollars in thousands):

	Year Ended December 31,					
	2006		2005		2004	
	Amount	%	Amount	%	Amount	%
Provision for income taxes at statutory federal rate	$ 97,356	35.0%	$108,822	35.0%	$ 93,250	35.0%
State income taxes, net of federal income tax benefit	7,439	2.7	9,570	3.0	9,608	3.6
Other	1,887	0.7	2,390	0.8	1,213	0.5
Provision for income taxes and effective tax rate for income from continuing operations	$106,682	38.4%	$120,782	38.8%	$104,071	39.1%

Deferred income taxes are based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities under the provisions of the enacted tax laws. Deferred income taxes as of December 31, consist of (in thousands):

	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Net operating loss and credit carryforwards	$ 26,709	$ —	$ 27,798	$ —
Property and equipment	—	136,249	—	124,439
Self-insurance liabilities	35,607	—	28,639	—
Intangibles	—	101,569	—	85,745
Other liabilities	—	2,879	—	3,472
Long-term debt and interest	989	—	—	56
Accounts receivable	33,535	—	8,767	—
Accrued expenses	20,362	—	17,861	—
Other comprehensive income	—	1,952	—	8,391
Stock-Based compensation	6,353	—	—	—
Other	12,078	—	6,733	—
	135,633	242,649	89,798	222,103
Valuation allowance	(21,207)	—	(21,146)	—
Total deferred income taxes	$ 114,426	$242,649	$ 68,652	$222,103

Management believes that the net deferred tax assets will ultimately be realized, except as noted below. Management's conclusion is based on its estimate of future taxable income and the expected timing of temporary difference reversals. The Company has state net operating loss carry forwards of approximately $458 million, which expire from 2007 to 2026. With respect to the deferred tax liability pertaining to intangibles, as included above, goodwill purchased in connection with certain of the Company's business acquisitions is amortizable for income tax reporting purposes. However, for financial reporting purposes, there is no corresponding amortization allowed with respect to such purchased goodwill.

The valuation allowance increased by $0.1 million and $1.5 million during the years ended December 31, 2006 and 2005, respectively. In addition to amounts previously discussed, the change in valuation allowance relates to a redetermination of the amount of, and realizability of, net operating losses in certain state income tax jurisdictions.

The Company paid income taxes, net of refunds received, of $128.1 million, $68.1 million and $60.9 million during 2006, 2005, and 2004, respectively.

Federal Income Tax Examination. The Company agreed to a settlement at the Internal Revenue Service Appeals Office with respect to the 2003 consolidated income tax return year. The Company has since received closing letters with respect to the examinations for the tax year 2003. This settlement was not material to the Company's consolidated statement of income or financial position.

6. Long-Term Debt

Long-term debt consists of the following (in thousands):

	As of December 31, 2006	As of December 31, 2005
Credit Facilities:		
Revolving Credit Loans	$ —	$ —
Term Loans	1,572,000	1,185,000
Convertible Notes	—	136,624
Tax-exempt bonds	8,000	8,000
Senior Subordinated Notes	300,000	300,000
Capital lease obligations (see Note 8)	44,670	21,792
Term loans from acquisitions	—	—
Other	16,507	16,208
Total debt	1,941,177	1,667,624
Less current maturities	(35,396)	(19,124)
Total long-term debt	$ 1,905,781	$ 1,648,500

Credit Facilities. On August 19, 2004, the Company entered into a $1.625 billion senior secured credit facility with a consortium of lenders which was subsequently amended on December 16, 2004, July 8, 2005 and December 13, 2006. This facility replaced the Company’s previous credit facility and consists of a $1.2 billion term loan that matures in 2011 and a $425 million revolving credit facility that matures in 2009. The First Incremental Facility Amendment, dated as of December 13, 2006, provides for an additional tranche of term loans to the Credit Agreement in an aggregate principal amount of $400 million (the “Incremental Term Loan Facility”). The full amount of the Incremental Term Loan Facility was funded on December 13, 2006, and the proceeds were used to repay the full outstanding amount (approximately $326 million) of the revolving credit facility under the Credit Agreement and the balance is available to be used for general corporate purposes. The Company may elect from time to time an interest rate per annum for the borrowings under the term loan, including the incremental term loan, and revolving credit facility equal to (a) an alternate base rate, which will be equal to the greatest of (i) the Prime Rate in effect and (ii) the Federal Funds effective Rate, plus 50 basis points, plus (1) 75 basis points for the term loan and (2) the Applicable Margin for revolving credit loans or (b) the Eurodollar Rate plus (1) 175 basis points for the term loan and (2) the Applicable Margin for Eurodollar revolving credit loans. The Company also pays a commitment fee for the daily average unused commitments under the revolving credit facility. The commitment fee is based on a pricing grid depending on the Applicable Margin for Eurodollar revolving credit loans and ranges from 0.250% to 0.500%. The commitment fee is payable quarterly in arrears and on the revolving credit termination date with respect to the available revolving credit commitments. In addition, the Company will pay fees for each letter of credit issued under the credit facility. The purpose of the facility was to refinance the Company’s previous credit agreement, repay specified other indebtedness, and fund general corporate purposes including amending the credit facility to permit declaration and payment of cash dividends to repurchase shares or make other distributions, subject to certain restrictions. In connection with this refinancing, the Company recorded a pre-tax write-off of approximately $0.8 million in deferred loan costs relative to the early extinguishment of a portion of the previous credit facility.

As of December 31, 2006, the Company’s availability for additional borrowings under its revolving tranche was $425 million, of which $21 million was set aside for outstanding letters of credit. The Company also has the ability to add up to $200 million of borrowing capacity from receivable transactions (including securitizations) under its senior secured credit facility which has not yet been accessed. The Company also has the ability to amend the senior secured credit facility to provide for one or more tranches of term loans in an aggregate principal amount up to $400 million, which the Company has not yet accessed. As of December 31, 2006, the Company's weighted average interest rate under its credit agreement was 7.3%.

The terms of the credit agreement include various restrictive covenants. These covenants include restrictions on additional indebtedness, liens, investments, asset sales, capital expenditures, sale and leasebacks, contingent obligations, transactions with affiliates, dividends and stock repurchases and fundamental changes. The Company would be required to amend the existing credit agreement in order to pay dividends in excess of $300 million to the Company's shareholders. The covenants also require maintenance of various ratios regarding consolidated total indebtedness, consolidated interest, and fixed charges.

The Term Loans are scheduled to be paid with principal payments for future years as follows (in thousands):

	Term Loans
2007	$ 16,000
2008	16,000
2009	16,000
2010	295,000
2011	850,000
Thereafter	379,000
Total	$ 1,572,000

As of December 31, 2006 and 2005, the Company had letters of credit issued, primarily in support of potential insurance related claims and certain bonds of approximately $21 million and $23 million, respectively.

Convertible Notes. On October 15, 2001, the Company sold $287.5 million aggregate principal amount (including the underwriter's over-allotment option) of 4.25% convertible notes for face value. The notes were scheduled to mature on October 15, 2008 unless converted or redeemed earlier. Interest on the notes was payable semi-annually on April 15 and October 15 of each year. The interest payments commenced April 15, 2002. The notes were convertible, at the option of the holder, into shares of the Company's common stock at any time before the maturity date, unless the Company has previously redeemed or repurchased the notes, at a conversion rate of 29.8507 shares of common stock per $1,000 principal amount of notes representing a conversion price of $33.50. The conversion rate was subject to anti-dilution adjustment in some events.

On November 14, 2005 the Company elected to call for redemption $150 million in principal amount of the convertible notes. At the conclusion of the first call for redemption, $0.3 million in principal amount of the convertible notes were redeemed for cash, and $149.7 million of the convertible notes called for redemption, plus an additional $0.9 million of the convertible notes, were converted by the holders into 4,495,083 shares of the Company's common stock, $.01 par value per share. On December 16, 2005 the Company elected to call for redemption the remaining convertible notes. In January 2006, at the conclusion of this second call for redemption $0.1 million in principal amount of the convertible notes were redeemed for cash and the remaining balance of $136.5 million were converted into 4,074,510 shares of the Company's common stock.

Tax-Exempt Bonds. Tax-Exempt Bonds bore interest at floating rates, which averaged 3.51% and 2.51% during 2006 and 2005, respectively.

Senior Subordinated Notes. On December 16, 2004, the Company completed a private placement offering of $300 million aggregate principal amount of 6.5% senior subordinated notes due 2012. The senior subordinated notes were sold in an offering pursuant to Rule 144A and Regulation S under the Securities Act of 1933. The senior subordinated notes have not been registered under the Securities Act of 1933 or the securities laws of any state and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements under the Securities Act of 1933 and any applicable state securities laws. On February 24, 2005, the Company filed a registration statement to exchange these notes for registered notes. This exchange was completed during the first quarter of 2005.

Other Debt. As of December 31, 2006, other debt consisted primarily of an industrial revenue bond and other obligations maturing in various installments through 2014.

The Company is currently a party to twelve separate interest swap agreements with an aggregate notional amount of $1,250 million, to limit the effect of changes in interest rates on a portion of the Company's long-term borrowings. On each of these swaps, the Company receives a variable rate of interest based on the three-month London Inter-Bank Offer Rate ("LIBOR") in exchange for the payment of a fixed rate of interest. The Company currently pays, on a quarterly basis, a margin above LIBOR of 175 basis points for revolver loans and term loans under the senior secured credit facility. See footnote 7 for additional information regarding these swaps.

As of December 31, 2006, the scheduled maturities of long-term debt outstanding, including capital leases for each of the next five years and thereafter are as follows (in thousands):

2007	$ 35,396
2008	21,062
2009	18,523
2010	304,941
2011	851,714
Thereafter	709,541
	$ 1,941,177

The Company paid interest of $96 million, $90 million and $74 million on borrowings during the years ended December 31, 2006, 2005 and 2004, respectively.

7. Fair Values of Financial Instruments

The fair value of financial instruments has been estimated by the Company using available market information as of December 31, 2006 and 2005, and valuation methodologies considered appropriate. The estimates presented are not necessarily indicative of amounts the Company could realize in a current market exchange (in thousands):

	As of December 31,			
	2006		2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 40,566	$ 40,566	$ 104,108	$ 104,108
Available-for-sale securities	25,334	25,334	19,778	19,778
Liabilities:				
Credit facilities	1,572,000	1,573,540	1,185,000	1,199,072
Convertible Notes	—	—	136,624	156,434
Tax-exempt Bonds	8,000	8,000	8,000	8,000
Senior Subordinated Notes	300,000	295,500	300,000	294,750
Other debt	4,344	4,344	5,536	5,536

Cash and cash equivalents. The carrying amount approximates fair value due to the short term maturity of these instruments (less than three months).

Available-for-sale securities. Estimated fair value is based on closing price as quoted in public markets.

Credit facilities, term loans from acquisitions and other debt. Estimated fair value is based on information from the Company's bankers regarding relevant pricing for trading activity among the Company's lending institutions.

Convertible Notes. Estimated fair value is based on the average bid and ask price as quoted in public markets for these instruments.

Tax Exempt Bonds. The carrying amount approximates fair value as a result of the weekly interest rate reset feature of these publicly traded instruments.

Senior Subordinated Notes. Estimated fair value is based on the average bid and ask price as quoted by the bank who served as underwriters in the sale of these notes.

Interest Rate Swaps. The fair value of interest rate swap agreements is the amount at which they could be settled, based on estimates obtained from the counterparty. The Company has designated the interest rate swaps as cash flow hedge instruments whose recorded value in the consolidated balance sheet approximates fair market value.

The Company assesses the effectiveness of its hedge instruments on a quarterly basis. For the years ended December 31, 2006 and 2005, the Company completed an assessment of the cash flow hedge instruments and determined the hedges to be highly effective. The Company has also determined that the ineffective portion of the hedges do not have a material effect on the Company's consolidated financial position, operations or cash flows. The counterparty to the interest rate swap agreements exposes the Company to credit risk in the event of non-performance. However, the Company does not anticipate non-performance by the counterparty. The

Company does not hold or issue derivative financial instruments for trading purposes. Interest rate swaps consisted of the following at December 31, 2006:

Swap #	Notional Amount (In 000's)	Fixed Interest Rate	Termination Date	Fair Value (000's)
1	100,000	2.04%	June 13, 2007	$1,466
2	150,000	3.30%	November 4, 2007	2,451
3	100,000	2.40%	June 13, 2008	3,848
4	100,000	3.586%	August 29, 2008	2,429
5	100,000	4.06%	May 30, 2008	1,486
6	100,000	3.9350%	June 6, 2009	2,497
7	100,000	4.3375%	November 30, 2009	1,810
8	100,000	4.9360%	October 4, 2010	186
9	100,000	4.7090%	January 24, 2011	1,043
10	100,000	4.7185%	August 19, 2011	1,155
11	100,000	4.7040%	August 19, 2011	1,249
12	100,000	4.6250%	August 19, 2011	1,224

(1) This swap agreement becomes effective June 13, 2007, concurrent with (1) the termination of agreement No. 1 listed above.

Assuming no change in December 31, 2006 interest rates, approximately $15.7 million will be recognized in earnings through interest income during the year ending December 31, 2007 pursuant to the interest rate swap agreements. If interest rate swaps do not remain highly effective as a cash flow hedge, the derivatives' gains or losses reported through other comprehensive income will be reclassified into earnings.

8. Leases

The Company leases hospitals, medical office buildings, and certain equipment under capital and operating lease agreements. During 2006, the Company entered into $29.8 million of capital leases. All lease agreements generally require the Company to pay maintenance, repairs, property taxes and insurance costs. Commitments relating to noncancellable operating and capital leases for each of the next five years and thereafter are as follows (in thousands):

Year Ended December 31,	Operating	Capital
2007	$ 62,415	$ 7,285
2008	47,087	6,734
2009	37,239	4,381
2010	28,553	3,694
2011	24,292	3,382
Thereafter	98,807	37,924
Total minimum future payments	$ 298,393	$ 63,400
Less imputed interest		(18,730)
		44,670
Less current portion		(5,182)
Long-term capital lease obligations		$ 39,488

Assets capitalized under capital leases as reflected in the accompanying consolidated balance sheets were $20.4 million of land and improvements, $179.3 million of buildings and improvements, and $49.5 million of equipment and fixtures as of December 31, 2006 and $12.1 million of land and improvements, $96.3 million of buildings and improvements and $43.9 million of equipment and fixtures as of December 31, 2005. The accumulated depreciation related to assets under capital leases was $71.8 million and $56.2 million as of December 31, 2006 and 2005, respectively. Depreciation of assets under capital leases is included in depreciation and amortization and amortization of debt discounts on capital lease obligations is included in interest expense in the consolidated statements of income.

9. Employee Benefit Plans

The Company maintains various benefit plans, including a defined contribution plan, defined benefit plans, and deferred compensation plans. The Company's defined contribution plan is qualified under Section 401(k) of the Internal Revenue Code, and covers substantially all employees at its hospitals, clinics, and the corporate offices. Participants may contribute a portion of their compensation not exceeding a limit set annually by the Internal Revenue Service. This plan includes a provision for the Company to match a portion of employee contributions. Total expense under the 401(k) plan was $10.7 million, $8.8 million and $8.3 million for the years ended December 31, 2006, 2005 and 2004, respectively. The Company has three defined benefit, non-contributory pension plans (Pension plans) that covers certain employees at three of its hospitals. One of the pension plans was established in 2006. The Pension plans provide benefits to covered individuals satisfying certain age and service requirements. Employer contributions to the Pension plans are in accordance with the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended. The Company expects to contribute $0.2 million to the Pension plans in fiscal 2007. The Company also provides an unfunded supplemental executive retirement plan (SERP) for certain members of its executive management. The Company uses a December 31 measurement date for the benefit obligations and a January 1 measurement date for its net periodic costs. Variances from actuarially assumed rates will result in increases or decreases in benefit obligations, net periodic cost and funding requirements in future periods. The Company's deferred compensation plans allow participants to defer receipt of a portion of their compensation. The liability under the deferred compensation plans was $17.7 million at December 31, 2006 and $13 million at December 31, 2005. The Company has available-for-sale securities either restricted or generally designated to pay benefits of the deferred compensation plans and the SERP in the amounts of $25.3 million and $19.8 million at December 31, 2006 and 2005, respectively.

The Company adopted the provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of SFAS No. 87, 88, 106, and 132(R)" ("SFAS No. 158"), for the year ending December 31, 2006. SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of defined benefit pension and postretirement plans as an asset or liability in its consolidated statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. It also requires disclosure in the notes to the consolidated financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition assets or obligation. The adoption of SFAS No. 158 resulted in an increase to the pension liability of $13.8 million, deferred taxes of $5.5 million, and an increase in the loss of accumulated other comprehensive income of $8.3 million in the consolidated balance sheet for the year ending December 31, 2006.

A summary of the benefit obligations and funded status for the Company's pension and SERP plans follows (in thousands):

	Pension Plans		SERP	
	2006	2005	2006	2005
Change in benefit obligation:				
Benefit obligation, beginning of year	$ 27,467	$ 22,747	$ 22,280	$ 14,722
Service cost	3,757	3,043	3,023	2,113
Interest cost	1,601	1,364	1,225	846
Plan amendment	(5,769)	—	—	—
Actuarial loss	(792)	323	(3,235)	4,599
Benefits paid	(44)	(10)	—	—
Benefit obligation, end of year	26,220	27,467	23,293	22,280
Change in plan assets:				
Fair value of assets, beginning of year	12,452	5,336	—	—
Actual return on plan assets	1,262	507	—	—
Employer contributions	—	6,619	—	—
Benefits paid	(44)	(10)	—	—
Fair value of assets, end of year	13,670	12,452	—	—
Unfunded status	$ (12,550)	$ (15,015)	$ (23,293)	$ (22,280)

A summary of the amounts recognized in the accompanying consolidated balance sheets follows (in thousands):

	Pension Plans		SERP	
	2006	2005	2006	2005
Noncurrent Asset	$ —	$ —	$ —	$ —
Current Liability	—	—	—	—
Noncurrent Liability	(12,550)	(3,186)	(23,293)	(7,290)
Net amount recognized in the consolidated balance sheets	$ (12,550)	$ (3,186)	$ (23,293)	$ (7,290)

A summary of the plans' benefit obligation in excess of the fair value of plan assets as of the end of the year follows (in thousands):

	Pension Plans		SERP	
	2006	2005	2006	2005
Projected benefit obligation	$26,220	$27,467	$23,293	$22,280
Accumulated benefit obligation	17,127	12,113	18,214	8,231
Fair value of plan assets	13,670	12,452	—	—

As of December 31, 2005, the fair value of plan assets of $9.8 million exceeds the accumulated benefit obligation of $9.2 million by $0.6 million for one of the Pension plans. The other Pension plan's accumulated benefit obligation of $2.9 million exceeds the fair value of its plan assets of $2.6 million by $0.3 million.

A summary of the weighted-average assumptions used by the Company to determine benefit obligations as of December 31 follows:

	Pension Plans		SERP	
	2006	2005	2006	2005
Discount Rate	5.73% - 5.95%	5.80%	5.75%	5.25%
Annual Salary Increases	4.00% - 5.00%	4.00%	5.00%	5.00%

A summary of the amounts recognized in Accumulated Other Comprehensive Income (“AOCI”) due to the adoption of SFAS No. 158 as of the end of the year follows (in thousands):

	Pension Plans		SERP	
	2006	2005	2006	2005
Amount recognized in AOCI prior to SFAS 158	$ —	$ —	$ —	$ —
Amount recognized in AOCI due to adoption of SFAS 158				
Prior service cost (credit)	3,583	N/A	6,586	N/A
Net actuarial (gain) loss	141	N/A	2,937	N/A
Total amount recognized in AOCI	3,724	N/A	9,523	N/A

A summary of the expected amortization amounts to be included in net periodic cost for 2007 are as follows (in thousands):

	Pension Plans	SERP
Prior service cost	$ 878	$ 884
Actuarial (gain)/loss	(22)	60

A summary of the weighted-average assumptions used by the Company to determine net periodic cost follows:

	Pension Plans			SERP		
	2006	2005	2004	2006	2005	2004
Discount rate	5.40%-5.80%	6.00%	6.50%	5.50%	5.75%	6.00%
Rate of compensation increase	4.00%-5.00%	4.00%	4.00%	5.00%	5.00%	5.00%
Expected long term rate of return on assets	8.50%	8.50%	8.50%	N/A	N/A	N/A

The Company’s weighted-average asset allocations by asset category for its pension plans as of the end of the year follows:

	Pension Plans		SERP	
	2006	2005	2006	2005
Equity securities	100%	100%	N/A	N/A
Debt securities	0%	0%	N/A	N/A
Total	100%	100%	N/A	N/A

The Company’s pension plan assets are invested in mutual funds with an underlying investment allocation of 60% equity securities and 40% debt securities. The expected long-term rate of return for the Company’s pension plan assets is based on current expected long-term inflation and historical rates of return on equities and fixed income securities, taking into account the investment policy under the plan. The expected long-term rate of return is weighted based on the target allocation for each asset category. Equity securities are expected to return between 8% and 12% and debt securities are expected to return between 4% and 7%. The Company expects its pension plan asset managers will provide a premium of approximately 0.5% to 1.5% per annum to the respective market benchmark indices.

The Company's investment policy related to its pension plans is to provide for growth of capital with a moderate level of volatility by investing in accordance with the target asset allocations stated above. The Company reviews its investment policy, including its target asset allocations, on a semi-annual basis to determine whether any changes in market conditions or amendments to its pension plans requires a revision to its investment policy.

The estimated future benefit payments reflecting future service as of the end of 2006 for the Company's pension and SERP plans follows (in thousands):

Years Ending	Pension Plans	SERP
2007	182	—
2008	299	66
2009	468	66
2010	620	66
2011	717	1,486
2012 - 2016	8,499	12,062

10. Stockholders' Equity

On June 14, 2000, the Company closed its initial public offering of 18,750,000 shares of common stock; and on July 3, 2000, the underwriters exercised their overallotment option and purchased 1,675,717 shares of common stock. These shares were offered at $13.00 per share. On November 3, 2000, the Company completed an offering of 18,000,000 shares of its common stock at an offering price of $28.1875. Of these shares, 8,000,000 shares were sold by affiliates of FL & Co. and other shareholders. On October 15, 2001, the Company completed an offering of 12,000,000 shares of its common stock at an offering price of $26.80 concurrent with its notes offering. The net proceeds to the Company from the 2001 and the two 2000 common stock offerings in the aggregate were $306.1 million and $514.5 million, respectively, and were used to repay long-term debt.

Authorized capital shares of the Company include 400,000,000 shares of capital stock consisting of 300,000,000 shares of common stock and 100,000,000 shares of Preferred Stock. Each of the aforementioned classes of capital stock has a par value of $.01 per share. Shares of Preferred Stock, none of which are outstanding as of December 31, 2006, may be issued in one or more series having such rights, preferences and other provisions as determined by the Board of Directors without approval by the holders of common stock.

On January 14, 2006, the Company commenced an open market repurchase program for up to 5,000,000 shares of the Company's common stock, not to exceed $200 million in repurchases. Under this program, the Company repurchased the entire 5,000,000 shares at a weighted average price of $35.23. This program concluded on November 8, 2006 when the maximum number of shares had been repurchased. This repurchase plan followed a prior repurchase plan for up to 5,000,000 shares which concluded on January 13, 2006. The Company repurchased 3,029,700 shares at a weighted average price of $31.20 per share under this program. On December 13, 2006, the Company commenced another open market repurchase program for up to 5,000,000 shares of the Company's common stock not to exceed $200 million in repurchases. This program will conclude at the earlier of three years or when the maximum number of shares has been repurchased. As of December 31, 2006, the Company has not repurchased any shares under this program.

On September 21, 2004, the Company entered into an underwriting agreement (the "Underwriting Agreement") among the Company, CHS/Community Health Systems, Inc., Citigroup Global Markets Inc. ("the Underwriter"), Forstmann Little & Co. Equity Partnership-V, L.P. and Forstmann Little & Co. Subordinated

Debt and Equity Management Buyout Partnership-VI, L.P. (collectively, the "Selling Stockholders"). Pursuant to the Underwriting Agreement, the Underwriters purchased 23,134,738 shares of common stock from the Selling Stockholders for $24.21 per share. The Company did not receive any proceeds from any sales of shares by the Selling Stockholders. On September 27, 2004, the Company purchased from the Underwriters 12,000,000 of these shares for $24.21 per share. For corporate law purposes, the Company retired these shares upon repurchase. Accordingly, these 12,000,000 shares are treated as authorized and unissued shares.

11. Earnings Per Share

The following table sets forth the components of the numerator and denominator for the computation of basic and diluted income from continuing operations per share (in thousands, except share data):

	Year Ended December 31,		
	2006	2005	2004
Numerator:			
Numerator for basic earnings per share —			
Income from continuing operations available to common stockholders — basic	$ 171,479	$ 190,138	$ 162,357
Numerator for diluted earnings per share —			
Income from continuing operations	$ 171,479	$ 190,138	$ 162,357
Interest, net of tax, on 4.25% convertible notes	135	8,565	8,757
Income from continuing operations available to common stockholders — diluted	$ 171,614	$ 198,703	$ 171,114
Denominator:			
Weighted-average number of shares outstanding — basic	94,983,646	88,601,168	95,643,733
Effect of dilutive securities:			
Non-employee director options	11,825	11,715	32,336
Unvested common shares	—	—	23,499
Restricted Stock awards	140,959	115,411	—
Employee options	951,360	1,582,063	1,582,146
4.25% Convertible notes	145,120	8,385,031	8,582,076
Weighted-average number of shares outstanding — diluted	96,232,910	98,695,388	105,863,790
Dilutive securities outstanding not included in the computation of earnings per share because their effect is antidilutive:			
Employee options	1,261,367	31,100	262,025

12. Commitments and Contingencies

Construction Commitments. The Company has agreed, as part of the acquisition in 2003 of Southside Regional Medical Center in Petersburg, Virginia, to build a replacement facility with an aggregate estimated construction cost, including equipment, of approximately $135 million. Of this amount, approximately $18 million has been expended through December 31, 2006. The Company expects to spend $55 million in replacement hospital construction and equipment costs related to this project in 2007. This project is required to be completed in 2008. In addition, the Company has agreed, as part of the acquisition in 2004 of

Phoenixville Hospital in Phoenixville, Pennsylvania, to spend $90 million in capital expenditures over eight years to develop and improve the hospital; of this amount approximately $19 million has been expended through December 2006. The Company expects to spend $19 million of this commitment in 2007. The Company has agreed as part of the acquisition in 2005 of Chestnut Hill Hospital, in Philadelphia, Pennsylvania to spend $41 million in capital expenditures over four years to develop and improve the hospital; of this amount approximately $7 million has been expended through December 2006. The Company expects to spend approximately $5 million of this commitment in 2007. As part of the acquisition in 2005 of Bedford County Medical Center in Shelbyville, Tennessee, the Company agreed to build a replacement facility with an aggregate estimated construction cost of approximately $35 million. Of this amount, approximately, $0.8 million has been expended through December 31, 2006. The Company expects to spend $12 million in replacement hospital construction costs related to this project in 2007. The project is required to be completed by June 30, 2009. Also as required by an amendment to a lease agreement entered into in 2005, the Company agreed to build a replacement facility at its Barstow, California location. Construction costs for this replacement facility are estimated to be approximately $60 million. Also in 2005, the Company entered into an agreement with a developer to build and lease to the Company new corporate headquarters. The Company accounts for this project as if it owns the assets. Construction of the new headquarters was completed in December 2006. In January 2007, the Company exercised a purchase option under that lease agreement and acquired the new headquarters by purchasing the equity interests of the previous owner for a purchase price of $34.9 million.

Physician Recruiting Commitments. As part of its physician recruitment strategy, the Company provides income guarantee agreements to certain physicians who agree to relocate to its communities and commit to remain in practice there. Under such agreements, the Company is required to make payments to the physicians in excess of the amounts they earned in their practice up to the amount of the income guarantee. These income guarantee periods are typically for 12 months. Such payments are recoverable by the Company from physicians who do not fulfill their commitment period, which is typically three years, to the respective community. At December 31, 2006, the maximum potential amount of future payments under these guarantees in excess of the liability recorded is $20.8 million.

Other. Under specified acquisition agreements, the Company has deposited funds into escrow accounts to be used solely for the purpose of recruiting physicians to that specified hospital. At December 31, 2006, the Company had $4.4 million deposited in escrow accounts, which is included in other long-term assets.

Professional Liability Risks. Substantially all of the Company’s professional and general liability risks are subject to a per occurrence deductible. Prior to June 1, 2002, substantially all of the Company’s professional and general liability risks were subject to a $0.5 million per occurrence deductible, and for claims reported from June 1, 2002 through June 1, 2003, these deductibles were $2.0 million per occurrence. Additional coverage above these deductibles was purchased through captive insurance companies in which the Company had a 7.5% minority ownership interest and to which the premiums paid by the Company represented less than 8% of the total premium revenues of the captive insurance companies. Concurrently, with the formation of the Company’s own wholly-owned captive insurance company in June 2003, the Company terminated its minority interest relationships in those entities. Substantially all claims reported on or after June 1, 2003 and before June 1, 2005 are self-insured up to $4.0 million per claim. Substantially all claims reported on or after June 1, 2005 are self insured up to $5 million per claim. Management on occasion has changed the insured risk at certain hospitals based upon insurance pricing and other factors and may continue that practice in the future. Excess insurance for all hospitals is purchased through commercial insurance companies and generally after the self-insured amount covers up to $100 million per occurrence for all claims reported on or after June 1, 2003. The Company’s insurance is underwritten on a “claims-made basis.” The Company accrues an estimated liability for its uninsured exposure and self-insured retention based on historical loss patterns and actuarial projections. The Company’s estimated liability for the self-insured portion of professional and general liability claims was $104.2 million and $88.4 million as of December 31, 2006 and 2005, respectively. These estimated liabilities represent the present value of estimated future professional liability claims payments based on expected loss patterns using a weighted-average discount rate of 4.6% and 4.1% in 2006 and 2005, respectively. The weighted-average discount rate is based on an estimate of the risk- free interest rate for the duration of the expected claim payments. The estimated undiscounted claims liability was $119.8 million and $107.7 million as of December 31, 2006 and 2005, respectively.

Legal Matters. The Company is a party to other legal proceedings incidental to its business. In the opinion of management, any ultimate liability with respect to these actions will not have a material adverse effect on the Company's consolidated financial position, cash flows or results of operations.

13. Subsequent Events

On January 31, 2007, the Company exercised its purchase option with the developer of its newly constructed corporate headquarters and acquired the building by purchasing the equity interests of the previous owner for a purchase price of $34.9 million.

Effective April 1, 2007, the Company completed its acquisition of Lincoln General Hospital (157 licensed beds), located in Ruston, Louisiana. The total consideration for this hospital was approximately $47.8 million, of which $43.6 million was paid in cash and $4.2 million was assumed in liabilities. On May 1, 2007, the Company completed its acquisition of Porter Health, a 301 bed acute care hospital located in Valparaiso, Indiana, with a satellite campus in Portage, Indiana, and outpatient medical campuses in Chesterton, Demotte, and Hebron, Indiana. As part of this acquisition, the Company has agreed to construct a 225-bed replacement facility for the Valparaiso hospital no later than April 2011. The total consideration for Porter Health was approximately $110.1 million, of which $83.2 million was paid in cash and $26.9 million was assumed in liabilities. During the quarter ended June 30, 2007, the Company made its initial purchase price allocation relating to these acquisitions resulting in approximately $6.6 million of goodwill being recorded. This allocation is preliminary pending, among other things, finalization of the determination of fair market value of tangible and intangible assets.

14. Quarterly Financial Data (Unaudited)

	Quarter 1(st)	2(nd)	3(rd)	4(th)	Total
	(In thousands, except share and per share data)				
Year ended December 31, 2006:					
Net operating revenues	$ 1,026,562	$ 1,061,054	$ 1,123,483	$ 1,154,477	$ 4,365,576
Income from continuing operations before taxes	93,552	85,236	13,314	86,059	278,161
Income from continuing operations	57,254	52,369	8,241	53,615	171,479
Loss on discontinued operations	(3,216)	—	—	—	(3,216)
Net income	54,038	52,369	8,241	53,615	168,263
Income from continuing operations per share:					
Basic	0.59	0.55	0.09	0.57	1.80
Diluted	0.58	0.54	0.09	0.57	1.78
Net income per share:					
Basic	0.56	0.55	0.09	0.57	1.77
Diluted	0.55	0.54	0.09	0.57	1.75
Weighted-average number of shares:					
Basic	96,552,448	95,769,030	94,119,020	93,538,958	94,983,646
Diluted	98,209,271	96,870,315	95,258,771	94,644,589	96,232,910
Year ended December 31, 2005:					
Net operating revenues	$ 908,263	$ 918,718	$ 929,269	$ 982,070	$ 3,738,320
Income from continuing operations before taxes	80,317	75,540	72,122	82,941	310,920
Income from continuing operations	49,079	46,150	44,066	50,843	190,138
Loss on discontinued operations	(13,091)	(5,622)	(1,180)	(2,701)	(22,594)
Net income	35,988	40,528	42,886	48,142	167,544
Income from continuing operations per share:					
Basic	0.56	0.52	0.50	0.57	2.15
Diluted	0.52	0.49	0.47	0.54	2.02
Net income per share:					
Basic	0.41	0.45	0.49	0.54	1.89
Diluted	0.39	0.43	0.46	0.51	1.79
Weighted-average number of shares:					
Basic	87,926,338	89,149,815	88,325,411	89,011,180	88,601,168
Diluted	98,087,086	99,328,929	98,528,968	98,389,422	98,579,977

15. Acquisition of Triad, Related Financing and Supplemental Condensed Consolidating Financial Information

On July 25, 2007, the Company completed its acquisition of Triad Hospitals, Inc. ("Triad") pursuant to which the Company acquired Triad for $54 per share in cash, or approximately $6.968 billion in the aggregate, including the assumption of approximately $1.702 billion of existing indebtedness of Triad. In connection with the closing of the Triad acquisition, the Company has assumed both recorded and unrecorded contingencies of Triad. The merger was approved by Triad's stockholders at a meeting held on June 13, 2007. The combined company owns or operates approximately 129 hospitals in 28 states, with a total bed count of approximately 19,200.

In connection with the consummation of the merger, the Company obtained $7.215 billion of senior secured financing under a new credit facility (the "New Credit Facility") and its wholly-owned subsidiary, CHS/Community Health Systems, Inc. (the "Issuer"), issued $3.021 billion aggregate principal amount ($3.000 billion, net of discount) of 8.875% senior notes due 2015 (the "Notes") at the closing of the merger. The Notes are senior obligations of the Issuer and are guaranteed on a senior basis by the Company and by certain of the Company's domestic subsidiaries. The Company used the net proceeds from the Notes offering and the net proceeds of the $6.065 billion of term loans under the New Credit Facility to pay the consideration under the merger agreement, to refinance certain of its indebtedness and indebtedness of Triad, to complete certain related transactions, to pay certain costs and expenses of the transactions and for general corporate uses. A $750 million revolving credit facility and a $400 million delayed draw term loan facility is available to the Company for working capital and general corporate purposes under the new credit facility. This revolving credit facility also will include a sub facility for letters of credit and a swingline sub facility. Also, in connection with the consummation of the merger, the Company completed an early repayment of its outstanding $300 million aggregate principal amount of 6-½% Senior Subordinated Notes due 2012 through a cash tender offer and consent solicitation.

The loans under the New Credit Facility will bear interest on the outstanding unpaid principal amount at a rate equal to an applicable percentage plus, at the Company's option, either (a) an alternative base rate determined by reference to the greater of (1) the prime rate announced by Credit Suisse and (2) the federal funds rate plus one-half of 1.0%, or (b) a reserve adjusted Eurodollar rate. The applicable percentage for term loans is 1.25% for alternative base rate loans and 2.25% for Eurodollar rate loans, and the applicable percentage for revolving loans will be up to 1.25% for alternative base rate revolving loans and up to 2.25% for Eurodollar revolving loans, in each case based on the Company's leverage ratio. Loans under the swingline sub facility bear interest at the rate applicable to alternative base rate loans under the revolving credit facility.

The Notes issued in connection with the Triad acquisition were issued in the principal amount of $3.021 billion. These Notes will mature on July 15, 2015. Interest on the Notes will accrue at the rate of 8-⅞% per annum and will be payable semiannually in arrears in January 15 and July 15, commencing January 15, 2008. Interest on the Notes will accrue from the date of original issuance. Interest will be completed on the basis of 360-day year comprised of twelve 30-day month.

The Notes are unsecured obligations of the Company. Secured debt and other secured obligation of the Company (including obligations with respect to the Credit Agreement) will be effectively senior to the Notes to the extent of the value of the assets securing such debt or other obligations. The Notes are fully and unconditionally guaranteed by the Company and certain of its current and future, direct and indirect, 100% owned domestic subsidiaries. Such guarantees are joint and several. The following condensed consolidating financial statements present the parent guarantor, the issuer, the subsidiary guarantors, the subsidiary non-guarantors and eliminations. This condensed consolidating financial information has been prepared and presented in accordance with SEC Regulation S-X Rule 3-10 "Financial Statements of Guarantors and Affiliates whose Securities Collateralize an issue Registered or Being Registered".

15. Supplemental Condensed Consolidating Financial Information (Continued)

CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
December 31, 2005:						
ASSETS						
Current assets:						
Cash and cash equivalents	$ —	$ —	$ 83,579	$ 20,529	$ —	$ 104,108
Patient accounts receivable, net of allowance for doubtful accounts	—	—	524,139	131,890	—	656,029
Supplies	—	—	78,154	17,046	—	95,200
Deferred income taxes	4,128	—	—	—	—	4,128
Prepaid expenses and taxes	—	—	32,615	762	—	33,377
Other current assets	—	—	19,306	2,061	—	21,367
Total current assets	4,128	—	737,793	172,288	—	914,209
Property and equipment, net	—	—	1,310,004	300,987	—	1,610,991
Goodwill	—	—	1,120,660	139,156	—	1,259,816
Other assets, net of accumulated amortization	—	23,390	106,772	19,040	—	149,202
Investment in subsidiaries	816,196	801,226	308,382	—	(1,925,804)	—
Total assets	$ 820,324	$ 824,616	$ 3,583,611	$ 631,471	$ (1,925,804)	$ 3,934,218
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Current maturities of long-term debt	$ 126	$ 12,000	$ 5,933	$ 1,065	$ —	$ 19,124
Accounts payable	—	—	134,147	55,793	—	189,940
Current income taxes payable	—	—	19,811	—	—	19,811
Deferred income taxes-current	—	—	—	—	—	—
Net investment in subsidiary-liability	—	—	—	—	—	—
Accrued liabilities:						
Employee compensation	—	—	97,174	24,601	—	121,775
Interest	3,087	5,439	(21)	86	—	8,591
Other	—	—	64,036	14,126	—	78,162
Total current liabilities	3,213	17,439	321,080	95,671	—	437,403
Long-term debt	436,498	1,173,000	37,493	1,509	—	1,648,500
Deferred income taxes	157,579	—	—	—	—	157,579
Other Long Term Liabilities	—	—	96,993	29,166	—	126,159
Intercompany payable	(1,341,543)	(1,182,015)	2,326,249	535,120	(337,811)	—
Stockholders' equity:						
Preferred Stock						
Common Stock	945	—	1	2	(3)	945
Additional paid-in Capital	1,195,726	—	—	—	—	1,195,726
Treasury stock, at cost	(6,678)	—	—	—	—	(6,678)
Accumulated other comprehensive income	15,191	15,191	222	—	(15,413)	15,191
Retained earnings	359,393	801,001	801,573	(29,997)	(1,572,577)	359,393
Total stockholders' equity	1,564,577	816,192	801,796	(29,995)	(1,587,993)	1,564,577
Total liabilities and stockholders' equity	$ 820,324	$ 824,616	$ 3,583,611	$ 631,471	$ (1,925,804)	$ 3,934,218

15. Supplemental Condensed Consolidating Financial Information (Continued)

CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
December 31, 2006:						
ASSETS						
Current assets:						
Cash and cash equivalents	$ —	$ —	$ 28,713	$ 11,853	$ —	$ 40,566
Patient accounts receivable, net of allowance for doubtful accounts	—	—	634,227	139,757	—	773,984
Supplies	—	—	94,070	19,250	—	113,320
Deferred income taxes	13,249	—	—	—	—	13,249
Prepaid expenses and taxes	—	—	32,447	(62)	—	32,385
Other current assets	—	—	27,727	20,153	—	47,880
Total current assets	13,249	—	817,184	190,951	—	1,021,384
Property and equipment, net	—	—	1,657,517	329,060	—	1,986,577
Goodwill	—	—	1,178,014	158,511	—	1,336,525
Other assets, net of accumulated amortization	—	20,804	127,367	13,922	—	162,093
Investment in subsidiaries	1,081,747	1,068,432	367,456	—	(2,517,635)	—
Total assets	$ 1,094,996	$ 1,089,236	$ 4,147,538	$ 692,444	$ (2,517,635)	$ 4,506,579
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Current maturities of long-term debt	$ —	$ 16,000	$ 20,375	$ (979)	$ —	$ 35,396
Accounts payable	—	—	209,354	38,393	—	247,747
Current income taxes payable	—	—	7,626	—	—	7,626
Deferred income taxes — current	—	—	—	—	—	—
Net investment in subsidiary — liability	—	—	—	—	—	—
Accrued liabilities:						
Employee compensation	—	—	132,883	29,305	—	162,188
Interest	867	5,866	316	73	—	7,122
Other	—	—	91,096	24,108	—	115,204
Total current liabilities	867	21,866	461,650	90,900	—	575,283
Long-term debt	300,000	1,556,000	48,962	819	—	1,905,781
Deferred income taxes	141,472	—	—	—	—	141,472
Other long-term liabilities	—	—	125,427	34,943	—	160,370
Intercompany payable	(1,071,016)	(1,570,373)	2,447,810	625,088	(431,509)	—
Stockholders' equity:						
Preferred Stock						
Common Stock	950	—	1	2	(3)	950
Additional paid-in Capital	1,195,947	—	—	(1)	1	1,195,947
Treasury stock, at cost	(6,678)	—	—	—	—	(6,678)
Accumulated other comprehensive income	5,798	5,798	(7,516)	—	1,718	5,798
Retained earnings	527,656	1,075,945	1,071,204	(59,307)	(2,087,842)	527,656
Total stockholders' equity	1,723,673	1,081,743	1,063,689	(59,306)	(2,086,126)	1,723,673
Total liabilities and stockholders' equity	$ 1,094,996	$ 1,089,236	$ 4,147,538	$ 692,444	$ (2,517,635)	$ 4,506,579

15. Supplemental Condensed Consolidating Financial Information (Continued)

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands)

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
Year ended December 31, 2004:						
Net operating revenues	$ —	—	2,632,377	571,130	—	3,203,507
Operating costs and expenses:						
Salaries and benefits	—	—	1,030,643	248,493	—	1,279,136
Provision for bad debts	—	—	257,238	67,405	—	324,643
Supplies	—	—	321,529	68,055	—	389,584
Rent	—	—	58,486	18,500	—	76,986
Other operating expenses	—	—	513,480	125,557	—	639,037
Minority interest in earnings	—	—	130	2,364	—	2,494
Depreciation and amortization	—	—	129,225	19,930	—	149,155
Equity in earnings of subsidiaries	(255,504)	(255,504)	10,844	—	500,164	—
Total operating costs and expenses	(255,504)	(255,504)	2,321,575	550,304	500,164	2,861,035
Income from operations	255,504	255,504	310,802	20,826	(500,164)	342,472
Interest expense, net of interest income	—	—	54,431	20,825	—	75,256
Loss from early extinguishment of debt	—	—	788	—	—	788
Income from continuing operations before income taxes	255,504	255,504	255,583	1	(500,164)	266,428
Provision for income taxes	104,071	—	—	—	—	104,071
						—
Income from continuing operations	151,433	255,504	255,583	1	(500,164)	162,357
Discontinued operations, net of taxes:						
Loss from operations of hospitals sold or held for sale	—	—	—	(7,279)	—	(7,279)
Net loss on sale of hospitals	—	—	—	(2,020)	—	(2,020)
Impairment of long-lived assets of hospital held for sale	—	—	—	(1,625)	—	(1,625)
						—
Loss on discontinued operations	—	—	—	(10,924)	—	(10,924)
Net income	$ 151,433	$ 255,504	$ 255,583	$ (10,923)	$ (500,164)	$ 151,433

15. Supplemental Condensed Consolidating Financial Information (Continued)

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands)

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
Year ended December 31, 2005:						
Net operating revenues	$ —	$ —	$ 2,987,635	$ 750,685	$ —	$ 3,738,320
Operating costs and expenses:						
Salaries and benefits	—	—	1,156,679	329,728	—	1,486,407
Provision for bad debts	—	—	299,802	77,794	—	377,596
Supplies	—	—	360,011	88,199	—	448,210
Rent	—	—	63,629	23,581	—	87,210
Other operating expenses	—	—	593,677	172,020	—	765,697
Minority interest in earnings	—	—	129	2,975	—	3,104
Depreciation and amortization	—	—	135,306	29,257	—	164,563
Equity in earnings of subsidiaries	(288,326)	(288,326)	12,021	—	564,631	—
Total operating costs and expenses	(288,326)	(288,326)	2,621,253	723,555	564,631	3,332,787
Income from operations	288,326	288,326	366,382	27,130	(564,631)	405,533
Interest expense, net of interest income	—	—	77,639	16,965	—	94,604
Loss from early extinguishment of debt	—	—	9	—	—	9
Income from continuing operations before income taxes	288,326	288,326	288,734	10,165	(564,631)	310,920
Provision for income taxes	120,782	—	—	—	—	120,782
Income from continuing operations	167,544	288,326	288,734	10,165	(564,631)	190,138
Discontinued operations, net of taxes:						
Loss from operations of hospitals sold or held for sale	—	—	—	(10,505)	—	(10,505)
Net loss on sale of hospitals	—	—	—	(7,618)	—	(7,618)
Impairment of long-lived assets of hospital held for sale	—	—	—	(4,471)	—	(4,471)
Loss on discontinued operations	—	—	—	(22,594)	—	(22,594)
Net income	$ 167,544	$ 288,326	$ 288,734	$ (12,429)	$ (564,631)	$ 167,544

15. Supplemental Condensed Consolidating Financial Information (Continued)

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands)

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
Year ended December 31, 2006:						
Net operating revenues	$ —	$ —	$ 3,519,487	$ 846,089	$ —	$ 4,365,576
Operating costs and expenses:						
Salaries and benefits	—	—	1,350,640	390,583	—	1,741,223
Provision for bad debts	—	—	434,536	113,245	—	547,781
Supplies	—	—	410,850	99,501	—	510,351
Other operating expenses	—	—	707,585	189,506	—	897,091
Rent	—	—	69,421	27,683	—	97,104
Minority interest in earnings	—	—	59	2,736	—	2,795
Depreciation and amortization	—	—	157,307	31,464	—	188,771
Equity in earnings of subsidiaries	(274,945)	(274,945)	34,624	—	515,266	—
Total operating costs and expenses	(274,945)	(274,945)	3,165,022	854,718	515,266	3,985,116
Income from operations	274,945	274,945	354,465	(8,629)	(515,266)	380,460
Interest expense, net of interest income	—	—	84,833	17,466	—	102,299
Loss from early extinguishment of debt	—	—	—	—	—	—
Income from continuing operations before income taxes	274,945	274,945	269,632	(26,095)	(515,266)	278,161
Provision for income taxes	106,682	—	—	—	—	106,682
Income from continuing operations	168,263	274,945	269,632	(26,095)	(515,266)	171,479
Discontinued operations, net of taxes:						
Loss from operations of hospitals sold or held for sale	—	—	—	(657)	—	(657)
Net loss on sale of hospitals	—	—	—	(2,559)	—	(2,559)
Impairment of long-lived assets of hospital held for sale	—	—	—	—	—	—
Loss on discontinued operations	—	—	—	(3,216)	—	(3,216)
Net income	$ 168,263	$ 274,945	$ 269,632	$ (29,311)	$ (515,266)	$ 168,263

15. Supplemental Condensed Consolidating Financial Information (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
Year ended December 31, 2004:						
Cash flows from operating activities:						
Net income	$ 151,433	$ 255,504	$ 255,583	$ (10,923)	$ (500,164)	$ 151,433
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	—	—	129,225	29,155	—	158,380
Deferred income taxes	32,552	—	—	9,350	—	41,902
Equity based compensation expense	2	—	—	—	—	2
Loss on early extinguishment of debt	788	—	—	—	—	788
Minority interest in earnings	—	—	—	1,578	—	1,578
Impairment on hospital held for sale	—	—	—	2,539	—	2,539
Loss on sale of hospitals	—	—	—	2,186	—	2,186
Other non-cash expenses, net	—	—	765	(96)	—	669
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:						
Patient accounts receivable	—	—	(28,425)	(3,389)	—	(31,814)
Supplies, prepaid expenses and other current assets	—	—	(11,712)	(1,837)	—	(13,549)
Accounts payable, accrued liabilities and income taxes	13,250	100	(37,532)	(189)	—	(24,371)
Advances to subsidiaries, net of return on investment	(222,766)	(316,460)	33,218	5,844	500,164	—
Other	5,361	(3,459)	33,694	411	—	36,007
Net cash provided by operating activities	(19,380)	(64,315)	374,816	34,629	—	325,750
Cash flows from investing activities:						
Acquisitions of facilities and other related equipment	—	—	(128,850)	(4,183)	—	(133,033)
Purchases of property and equipment	—	—	(146,835)	(17,451)	—	(164,286)
Disposition of hospitals	—	—	—	7,850	—	7,850
Proceeds from sale of equipment	—	—	770	20	—	790
Increase in other assets	—	—	(22,066)	(7,734)	—	(29,800)
Net cash used in investing activities	—	—	(296,981)	(21,498)	—	(318,479)
Cash flows from financing activities:						
Proceeds from exercise of stock options	9,900	—	—	—	—	9,900
Proceeds from senior Subordinated Notes	300,000	—	—	—	—	300,000
Stock Buy-Back	(290,520)					(290,520)
Deferred financing costs	—	—	(12,785)	2	—	(12,783)
Excess tax benefits relating to stock-based compensation	—	—	—	—	—	—
Redemption of convertible notes	—	—	—	—	—	—
Proceeds from minority investors in joint ventures	—	—	—	—	—	—
Redemption of minority investments in joint ventures	—	—	—	(3,522)	—	(3,522)
Distribution to minority investors in joint ventures	—	—	—	(1,238)	—	(1,238)
Borrowings under Credit Agreement	—	1,724,640	1,129	(1)	—	1,725,768
Repayments of long-term indebtedness	—	(1,660,325)	(7,388)	(996)	—	(1,668,709)
Net cash (used in) provided by	19,380	64,315	(19,044)	(5,755)	—	58,896

financing activities						
Net change in cash and cash equivalents	—	—	58,791	7,376	—	66,167
Cash and cash equivalents at beginning of period	—	—	10,516	5,815	—	16,331
Cash and cash equivalents at end of period	$ —	$ —	$ 69,307	$ 13,191	$ —	$ 82,498

15. Supplemental Condensed Consolidating Financial Information (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
Year ended December 31, 2005:						
Cash flows from operating activities:						
Net income	$ 167,544	$ 288,326	$ 288,734	$ (12,429)	$ (564,631)	$ 167,544
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	—	—	135,306	30,856	—	166,162
Deferred income taxes	9,889	—	—	—	—	9,889
Stock compensation expense	4,956	—	—	1	—	4,957
Excess tax benefits relating to stock-based compensation	—	—	—	—	—	—
Minority interest in earnings	—	—	129	2,975	—	3,104
Impairment on hospital held for sale	—	—	—	6,718	—	6,718
Loss on sale of hospitals	—	—	—	6,295	—	6,295
Other non-cash expenses, net	—	—	1,616	(876)	—	740
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:						
Patient accounts receivable	—	—	(39,035)	(8,420)	—	(47,455)
Supplies, prepaid expenses and other current assets	—	—	(18,616)	1,778	—	(16,838)
Accounts payable, accrued liabilities and income taxes	24,183	803	40,955	19,015	—	84,956
Advances to subsidiaries, net of return on investment	(183,328)	(272,332)	(92,822)	(16,149)	564,631	—
Other	7,327	(4,797)	27,979	(5,532)	—	24,977
Net cash provided by operating activities	30,571	12,000	344,246	24,232	—	411,049
Cash flows from investing activities:						
Acquisitions of facilities and other related equipment	—	—	(125,493)	(32,886)	—	(158,379)
Purchases of property and equipment	—	—	(162,401)	(25,964)	—	(188,365)
Disposition of hospitals	—	—	(6,500)	58,498	—	51,998
Proceeds from sale of equipment	—	—	112	2,213	—	2,325
Increase in other assets	—	—	(22,444)	(12,407)	—	(34,851)
Net cash used in investing activities	—	—	(316,726)	(10,546)	—	(327,272)
Cash flows from financing activities:						
Proceeds from exercise of stock options	49,580	—	—	—	—	49,580
Stock buy-back	(79,853)	—	—	—	—	(79,853)
Deferred financing costs	—	—	(1,259)	—	—	(1,259)
Excess tax benefits relating to stock-based compensation	—	—	—	—	—	—
Redemption of convertible notes	(298)	—	—	—	—	(298)
Proceeds from minority investors in joint ventures	—	—	—	1,383	—	1,383
Redemption of minority investments in joint ventures	—	—	—	(3,242)	—	(3,242)
Distribution to minority investors in joint ventures	—	—	—	(1,939)	—	(1,939)
Borrowings under Credit Agreement	—	—	—	—	—	—
Repayments of long-term indebtedness	—	(12,000)	(11,989)	(2,550)	—	(26,539)
Net cash (used in) provided by financing activities	(30,571)	(12,000)	(13,248)	(6,348)	—	(62,167)
Net change in cash and cash equivalents	—	—	14,272	7,338	—	21,610
Cash and cash equivalents at beginning of period	—	—	69,307	13,191	—	82,498

Cash and cash equivalents at end of period	$ —	$ —	$ 83,579	$ 20,529	$ —	$ 104,108

15. Supplemental Condensed Consolidating Financial Information (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
Year ended December 31, 2006:						
Cash flows from operating activities:						
Net income	$ 168,263	$ 274,945	$ 269,632	$ (29,311)	$ (515,266)	$ 168,263
Adjustments to reconcile net income to net cash provided by operating activities:						—
Depreciation and amortization	—	—	157,307	31,464		188,771
Deferred income taxes	(25,228)	—	—	—		(25,228)
Stock compensation expense	20,073	—	—	—		20,073
Excess tax benefits relating to stock-based compensation	(6,819)	—	—	—		(6,819)
Minority interest in earnings	—	—	59	2,736		2,795
Impairment on hospital held for sale	—	—	—	—		—
Loss on sale of hospitals		—	—	3,937		3,937
Other non-cash expenses, net	—	—	517	(17)		500
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:						—
Patient accounts receivable	—	—	(67,215)	(3,926)		(71,141)
Supplies, prepaid expenses and other current assets	—	—	(11,010)	6,466		(4,544)
Accounts payable, accrued liabilities and income taxes	4,935	1,358	81,880	(36,022)		52,151
Advances to subsidiaries, net of return on investment	4,976	(655,565)	62,468	72,855	515,266	—
Other	(11,148)	(7,738)	23,643	16,740		21,497
Net cash provided by operating activities	155,052	(387,000)	517,281	64,922	—	350,255
Cash flows from investing activities:						
Acquisitions of facilities and other related equipment	—	—	(362,290)	(22,328)	—	(384,618)
Purchases of property and equipment	—	—	(182,907)	(41,612)	—	(224,519)
Disposition of hospitals	—	—	—	750	—	750
Proceeds from sale of equipment	—	—	104	4,376	—	4,480
Increase in other assets	—	—	(21,559)	(14,791)	—	(36,350)
Net cash used in investing activities	—	—	(566,652)	(73,605)	—	(640,257)
Cash flows from financing activities:						
Proceeds from exercise of stock options	14,573	—	—	—	—	14,573
Stock buy-back	(176,316)	—	—	—	—	(176,316)
Deferred financing costs	—	—	(2,153)	—	—	(2,153)
Excess tax benefits relating to stock-based compensation	6,819	—	—	—	—	6,819
Redemption of convertible notes	(128)	—	—	—	—	(128)
Proceeds from minority investors in joint ventures	—	—	—	6,890	—	6,890
Redemption of minority investments in joint ventures	—	—	(56)	(859)	—	(915)
Distribution to minority investors in joint ventures	—	—	—	(3,220)	—	(3,220)
Borrowings under Credit Agreement	—	1,031,000	—	—	—	1,031,000
Repayments of long-term indebtedness	—	(644,000)	(3,286)	(2,804)	—	(650,090)
	—					
Net cash (used in) provided by financing activities	(155,052)	387,000	(5,495)	7	—	226,460
Net change in cash and cash equivalents	—	—	(54,866)	(8,676)	—	(63,542)

Cash and cash equivalents at beginning of period	—	—	83,579	20,529	—	104,108
Cash and cash equivalents at end of period	$ —	$ —	$ 28,713	$ 11,853	$ —	$ 40,566

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	June 30, 2007	December 31, 2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 21,357	$ 40,566
Patient accounts receivable, net of allowance for doubtful accounts of $498,473 and $478,565 at June 30, 2007, and December 31, 2006, respectively	876,523	773,984
Supplies	121,964	113,320
Deferred income taxes	13,249	13,249
Prepaid expenses and taxes	36,287	32,385
Other current assets	62,933	47,880
Total current assets	1,132,313	1,021,384
Property and equipment	2,809,988	2,630,366
Less accumulated depreciation and amortization	(720,846)	(643,789)
Property and equipment, net	2,089,142	1,986,577
Goodwill	1,344,956	1,336,525
Other assets, net	226,700	162,093
Total assets	$ 4,793,111	$ 4,506,579
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 25,757	$ 35,396
Accounts payable	257,730	247,747
Current income taxes payable	49,010	7,626
Accrued interest	8,375	7,122
Accrued liabilities	270,152	277,392
Total current liabilities	611,024	575,283
Long-term debt	1,974,240	1,905,781
Deferred income taxes	141,472	141,472
Other long-term liabilities	205,408	160,370
Stockholders' equity		
Preferred stock, $.01 par value per share, 100,000,000 shares authorized, none issued	—	—
Common stock, $.01 par value per share, 300,000,000 shares authorized; 95,881,020 shares issued and 94,905,471 shares outstanding at June 30, 2007, and 95,026,494 shares issued and 94,050,945 shares outstanding at December 31, 2006	959	950
Additional paid-in capital	1,215,321	1,195,947
Treasury stock, at cost, 975,549 shares at June 30, 2007 and December 31, 2006	(6,678)	(6,678)
Accumulated other comprehensive income	15,622	5,798
Retained earnings	635,743	527,656
Total stockholders' equity	1,860,967	1,723,673
Total liabilities and stockholders' equity	$ 4,793,111	$ 4,506,579

See accompanying notes to the condensed consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net operating revenues	$ 1,249,128	$ 1,061,054	$ 2,453,125	$ 2,087,616
Operating costs and expenses:				
Salaries and benefits	495,085	420,147	981,421	827,815
Provision for bad debts	148,661	115,704	284,360	223,295
Supplies	146,033	125,700	286,541	248,520
Other operating expenses	258,556	219,113	503,815	426,156
Rent	28,244	23,646	54,240	46,628
Depreciation and amortization	53,349	47,183	104,619	89,689
Minority interest in earnings	625	455	818	1,068
Total operating costs and expenses	1,130,553	951,948	2,215,814	1,863,171
Income from operations	118,575	109,106	237,311	224,445
Interest expense, net	31,155	23,870	61,559	45,657
Income from continuing operations before income taxes	87,420	85,236	175,752	178,788
Provision for income taxes	33,657	32,867	67,665	69,165
Income from continuing operations	53,763	52,369	108,087	109,623
Discontinued operations, net of taxes:				
Loss from operations of hospital sold and held for sale	—	—	—	(657)
Loss on sale of hospital	—	—	—	(2,559)
Loss on discontinued operations	—	—	—	(3,216)
Net income	$ 53,763	$ 52,369	$ 108,087	$ 106,407
Income from continuing operations per common share:				
Basic	$ 0.57	$ 0.55	$ 1.16	$ 1.14
Diluted	$ 0.57	$ 0.54	$ 1.14	$ 1.13
Net income per common share:				
Basic	$ 0.57	$ 0.55	$ 1.16	$ 1.11
Diluted	$ 0.57	$ 0.54	$ 1.14	$ 1.09
Weighted-average number of shares outstanding:				
Basic	93,518,991	95,769,030	93,373,357	96,158,575
Diluted	94,647,870	96,870,315	94,422,000	97,536,815

See accompanying notes to the condensed consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2007	2006
Cash flows from operating activities		
Net income	$ 108,087	$ 106,407
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	104,619	89,689
Minority interest in earnings	818	1,068
Stock-based compensation expense	14,295	8,946
Excess tax benefits relating to stock-based compensation	(2,295)	(4,588)
Other non-cash expenses, net	(1,542)	3,306
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Patient accounts receivable	(47,415)	(57,961)
Supplies, prepaid expenses and other current assets	(13,458)	(93)
Accounts payable, accrued liabilities and income taxes	46,353	69,988
Other	6,526	(9,716)
Net cash provided by operating activities	215,988	207,046
Cash flows from investing activities		
Acquisitions of facilities and other related equipment	(187,955)	(178,015)
Purchases of property and equipment	(108,849)	(94,194)
Disposition of hospital and other ancillary operations	12,662	750
Proceeds from sale of equipment	234	74
Increase in other assets	(25,362)	(24,382)
Net cash used in investing activities	(309,270)	(295,767)
Cash flows from financing activities		
Proceeds from exercise of stock options	6,693	8,699
Excess tax benefits relating to stock-based compensation	2,295	4,588
Stock buy-back	—	(137,666)
Deferred financing costs	(367)	(16)
Redemption of convertible notes	—	(128)
Proceeds from minority investors in joint ventures	1,105	3,060
Redemption of minority investments in joint ventures	(1,369)	(530)
Distributions to minority investors in joint ventures	(1,705)	(1,977)
Borrowings under credit agreement	132,000	176,000
Repayments of long-term indebtedness	(64,579)	(43,260)
Net cash provided by financing activities	74,073	8,770
Net change in cash and cash equivalents	(19,209)	(79,951)
Cash and cash equivalents at beginning of period	40,566	104,108
Cash and cash equivalents at end of period	$ 21,357	$ 24,157

See accompanying notes to the condensed consolidated financial statements.

1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements of Community Health Systems, Inc. and its Subsidiaries (the "Company") as of June 30, 2007 and for the three and six month periods ended June 30, 2007 and June 30, 2006, have been prepared in accordance with accounting principles generally accepted in the United States of America. In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such periods. All intercompany transactions and balances have been eliminated. The results of operations for the three and six months ended June 30, 2007, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2007. Certain information and disclosures normally included in the notes to the consolidated financial statements have been condensed or omitted as permitted by the rules and regulations of the Securities and Exchange Commission ("SEC"), although the Company believes the included disclosures are adequate to make the information presented not misleading. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2006, contained in the Company's Annual Report on Form 10-K.

Effective September 30, 2006, the Company began estimating the allowance for doubtful accounts by reserving a percentage of all self-pay accounts receivable without regard to aging category, based on collection history, adjusted for expected recoveries and, if present, anticipated changes in trends. Since the Company has historically collected substantially all third-party insured accounts receivable, which includes receivables from governmental agencies, within one year of date of discharge, the Company began reserving 100% of only those third-party insured accounts aging over 365 days from the date of discharge. The percentage used to reserve for all self-pay accounts is based now on the Company's specific collection history for self-pay accounts. Previously, the Company estimated the allowance for doubtful accounts by reserving all accounts aging over 150 days from the date of discharge, without regard to payor class.

2. ACCOUNTING FOR STOCK-BASED COMPENSATION

Stock-based compensation awards are granted under the Community Health Systems, Inc. Amended and Restated 2000 Stock Option and Award Plan (the "2000 Plan"). The 2000 Plan allows for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code as well as stock options which do not so qualify, stock appreciation rights, restricted stock, performance units and performance shares, phantom stock awards and share awards. Persons eligible to receive grants under the 2000 Plan include the Company's directors, officers, employees and consultants. To date, the options granted under the 2000 Plan are "nonqualified" stock options for tax purposes. Vesting of these granted options occurs in one third increments on each of the first three anniversaries of the award date. Options granted prior to 2005 have a 10 year contractual term and options granted in 2005 and 2006 have an 8 year contractual term. The exercise price of options granted to employees under the 2000 Plan were equal to the fair value of the Company's common stock on the option grant date. As of June 30, 2007, 9,863,232 shares of unissued common stock remain reserved for future grants under the 2000 Plan. The Company also has options outstanding under its Employee Stock Option Plan (the "1996 Plan"). These options are fully vested and exercisable and no additional grants of options will be made under the 1996 Plan.

The following table reflects the impact of total compensation expense related to stock-based equity plans under the Statement of Financial Accounting Standards ("SFAS") No. 123(R), on the reported operating results for the respective periods (in thousands, except per share data):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Effect on income from continuing operations before income taxes	$ (7,965)	$ (5,279)	$ (14,295)	$ (8,946)
Effect on net income	$ (4,839)	$ (3,367)	$ (8,684)	$ (5,750)
Effect on net income per share-diluted	$ (0.05)	$ (0.04)	$ (0.09)	$ (0.06)

SFAS No. 123(R) also requires the benefits of tax deductions in excess of the recognized tax benefit on compensation expense to be reported as a financing cash flow, rather than as an operating cash flow, as required under APB 25 and related interpretations. This requirement reduced our net operating cash flows and increased our financing cash flows by $1.5 million and $0.2 million for the three months ended June 30, 2007 and 2006, respectively, and $2.3 million and $4.6 million for the six months ended June 30, 2007 and 2006, respectively.

2. ACCOUNTING FOR STOCK-BASED COMPENSATION (Continued)

At June 30, 2007, $55.2 million of unrecognized stock-based compensation expense from all outstanding unvested stock options and restricted stock is expected to be recognized over a weighted-average period of 20.4 months.

The fair value of stock-based awards was estimated using the Black Scholes option pricing model with the assumptions and weighted-average fair values during the three and six months ended June 30, 2007 and June 30, 2006, as follows:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Expected volatility	24.6%	23.2%	25.5%	24.1%
Expected dividends	0	0	0	0
Expected term	4 years	4 years	4 years	4 years
Risk-free interest rate	4.77%	4.98%	4.50%	4.67%

In determining expected return, the Company examined concentrations of option holdings, historical patterns of option exercises and forfeitures, as well as forward looking factors, to determine if there were discernable employee populations. From this analysis, the Company identified two employee populations, one consisting primarily of certain senior executives and the other consisting of all other recipients.

The expected volatility rate was estimated based on historical volatility. In determining expected volatility, the Company also reviewed the market based implied volatility of actively traded options of its common stock and determined that historical volatility did not differ significantly from the implied volatility.

The expected life computation is based on historical exercise and cancellation patterns and forward looking factors, where present, for each population identified. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. The pre-vesting forfeiture rate is based on historical rates and forward looking factors for each population identified. As required under SFAS No. 123(R), the Company will adjust the estimated forfeiture rate to its actual experience.

Options outstanding and exercisable under the 1996 Plan and the 2000 Plan as of June 30, 2007, and changes during the three and six months then ended were as follows (in thousands, except share and per share data):

	Shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value as of June 30, 2007
Outstanding at December 31, 2006	5,482,528	$ 26.48		
Granted	852,500	37.21		
Exercised	(121,861)	26.13		
Forfeited and cancelled	(24,002)	35.77		
Outstanding at March 31, 2007	6,189,165	27.93		
Granted	54,000	37.20		
Exercised	(123,321)	26.82		
Forfeited and cancelled	(70,841)	36.16		
Outstanding at June 30, 2007	6,049,003	$ 27.94	6.45 years	$ 75,680
Exercisable at June 30, 2007	4,017,912	$ 23.53	5.98 years	$ 67,984

The weighted-average grant date fair value of stock options granted during the six months ended June 30, 2007 and June 30, 2006, was $10.36 and $10.39, respectively. The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company’s closing stock price on the last trading day of the reporting period ($40.45) and the exercise price, multiplied by the number of

2. ACCOUNTING FOR STOCK-BASED COMPENSATION (Continued)

the in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2007. This amount changes based on the market value of the Company's common stock. The aggregate intrinsic value of options exercised during the three months ended June 30, 2007 and 2006 was $1.5 million and $0.6 million, respectively, and the aggregate intrinsic value of options exercised during the six months ended June 30, 2007 and 2006 was $2.9 million and $11.7 million, respectively.

The Company has also awarded restricted stock under the 2000 Plan to various employees and its directors. The restrictions on these shares generally lapse in one-third increments on each of the first three anniversaries of the award date. Certain of the restricted stock awards granted to the Company's senior executives also contain a performance objective that must be met in addition to the vesting requirements. If the performance objective is not attained the awards will be forfeited in their entirety. Once the performance objective has been attained, restrictions will lapse in one-third increments on each of the first three anniversaries of the award date. Notwithstanding the above mentioned performance objectives and vesting requirements, the restrictions will lapse earlier in the event of death, disability, termination of employment by employer for reason other than for cause of the holder of the restricted stock or in the event of change in control of the Company. Restricted stock awards subject to performance standards are not considered outstanding for purposes of determining earnings per share until the performance objectives have been satisfied.

Restricted stock outstanding under the 2000 Plan as of June 30, 2007, and changes during the three and six months then ended are as follows:

	Shares	Weighted average fair value
Unvested at December 31, 2006	969,691	$ 36.05
Granted	681,000	37.19
Vested	(376,679)	35.42
Forfeited	—	—
Unvested at March 31, 2007	1,274,012	36.84
Granted	8,500	37.20
Vested	—	—
Forfeited	(16,002)	36.66
Unvested at June 30, 2007	1,266,510	36.84

As of June 30, 2007, there was $38.9 million of unrecognized stock-based compensation expense related to unvested restricted stock expected to be recognized over a weighted-average period of 21.4 months. Under the Director's Fee Deferral Plan, the Company's outside directors may elect to receive share equivalent units in lieu of cash for their director's fee. These units are held in the plan until the director electing to receive the share equivalent units retires or otherwise terminates his/her directorship with the Company. Share equivalent units are converted to shares of common stock of the Company at the time of distribution. The following table represents the amount of directors' fees which were deferred and the equivalent units into which they converted for each of the respective periods:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Directors' fees earned and deferred into plan	$ 29,375	$ 41,875	$ 65,250	$ 93,750
Equivalent units	726.205	1,139.456	1,743.936	2,574.449

At June 30, 2007, there are a total of 11,529.937 units deferred in the plan with an aggregate fair value of $466,386 based on the closing market price of the Company's common stock on the last trading day of the reporting period of $40.45.

3. COST OF REVENUE

The majority of the Company's operating costs and expenses are "cost of revenue" items. Operating costs that could be classified as general and administrative by the Company would include the Company's corporate office costs, which were $23.9 million and $23.3 million for the three months ended June 30, 2007 and 2006, respectively, and $47.0 million and $44.3 million for the six months ended June 30, 2007 and 2006, respectively. These corporate office costs include stock-based compensation expense recognized under SFAS No. 123(R).

4. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Company to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from the estimates.

5. ACQUISITIONS AND DIVESTITURES

On July 25, 2007, the Company completed its acquisition of Triad Hospitals, Inc. ("Triad") pursuant to which the Company acquired Triad for $54 per share in cash, or approximately $6.968 billion in the aggregate, including the assumption of approximately $1.702 billion of existing indebtedness of Triad. The combined company owns or operates approximately 130 hospitals in 28 states, with a total bed count of approximately 19,200. The merger was approved by Triad's stockholders at a meeting held on June 13, 2007. In connection with the consummation of the merger, the Company obtained $7.215 billion of senior secured financing under a new credit facility (the "New Credit Facility") and its wholly-owned subsidiary, CHS/Community Health Systems, Inc. (the "Issuer"), issued $3.021 billion aggregate principal amount ($3.000 billion, net of discount) of 8.875% senior notes due 2015 (the "Notes") at the closing of the merger. The Notes are senior obligations of the Issuer and are guaranteed on a senior basis by the Company and by certain of the Company's domestic subsidiaries (including certain of the acquired Triad subsidiaries). The Company used the net proceeds from the Notes offering and the net proceeds of the $6.065 billion of term loans under the New Credit Facility to pay the consideration under the merger agreement, to refinance certain of its indebtedness and indebtedness of Triad, to complete certain related transactions, to pay certain costs and expenses of the transactions and for general corporate uses. A $750 million revolving credit facility and a $400 million delayed draw term loan facility is available to the Company for working capital and general corporate purposes under the New Credit Facility. This revolving credit facility also will include a subfacility for letters of credit and a swingline subfacility. Also, in connection with the consummation of the merger, the Company completed an early repayment of its outstanding $300 million aggregate principal amount of 6-1/2% Senior Subordinated Notes due 2012 through a cash tender offer and consent solicitation.

Prior to entering the merger agreement, Triad terminated an Agreement and Plan of Merger that it entered into on February 4, 2007 (the "Prior Merger Agreement") with Panthera Partners, LLC, Panthera Holdco Corp. and Panthera Acquisition Corporation (collectively, "Panthera"). Concurrent with the termination of the Prior Merger Agreement and pursuant to the terms thereof, Triad paid a termination fee of $20 million to Panthera and advanced $20 million to Panthera to cover its out-of-pocket expenses. The Company has reimbursed Triad for the termination fee and the advance for expense reimbursement paid to Panthera. These amounts have been included in other assets on the accompanying June 30, 2007 balance sheet and will subsequently be included in the total allocated purchase price relative to the Triad acquisition.

Effective April 1, 2007, the Company completed its acquisition of Lincoln General Hospital (157 licensed beds), located in Ruston, Louisiana. The total consideration for this hospital was approximately $47.8 million, of which $43.6 million was paid in cash and $4.2 million was assumed in liabilities. On May 1, 2007, the Company completed its acquisition of Porter Health, a 301 bed acute care hospital located in Valparaiso, Indiana, with a satellite campus in Portage, Indiana, and outpatient medical campuses in Chesterton, Demotte, and Hebron, Indiana. As part of this acquisition, the Company has agreed to construct a 225-bed replacement facility for the Valparaiso hospital no later than April 2011. The total consideration for Porter Health was approximately $110.1 million, of which $83.2 million was paid in cash and $26.9 million was assumed in liabilities. During the quarter ended June 30, 2007, the Company made its initial purchase price allocation relating to these acquisitions resulting in approximately $6.6 million of goodwill being recorded. This allocation is preliminary pending, among other things, finalization of appraisals of tangible and intangible assets.

5. ACQUISITIONS AND DIVESTITURES (Continued)

During 2006, the Company acquired through seven separate purchase transactions and three capital lease transactions, substantially all of the assets and working capital of eight hospitals and three home health agencies. On March 1, 2006, the Company acquired, through a combination of purchasing certain assets and entering into a capital lease for other related assets, Forrest City Hospital, a 118 bed hospital located in Forrest City, Arkansas. On April 1, 2006, the Company completed the acquisition of two hospitals from Baptist Health System, Birmingham, Alabama: Baptist Medical Center — DeKalb (134 beds) and Baptist Medical Center — Cherokee (60 beds). On May 1, 2006, the Company acquired Via Christi Oklahoma Regional Medical Center, a 140 bed hospital located in Ponca City, Oklahoma. On June 1, 2006, the Company acquired Mineral Area Regional Medical Center, a 135 bed hospital located in Farmington, Missouri. On June 30, 2006, the Company acquired Cottage Home Options, a home health agency and related business, located in Galesburg, Illinois. On July 1, 2006, the Company acquired the healthcare assets of Vista Health, which included Victory Memorial Hospital (336 beds) and St. Therese Medical Center (71 non-acute care beds), both located in Waukegan, Illinois. On September 1, 2006, the Company acquired Humble Texas Home Care, a home health agency located in Humble, Texas. On October 1, 2006, the Company acquired Helpsource Home Health, a home health agency located in Wichita Falls, Texas. On November 1, 2006, the Company acquired through two separate capital lease transactions, Campbell Memorial Hospital, a 99 bed hospital located in Weatherford, Texas and Union County Hospital, a 25 bed hospital located in Anna, Illinois. The aggregate consideration for these eight hospitals and three home health agencies totaled approximately $385.7 million, of which $353.8 million was paid in cash and $31.9 million was assumed in liabilities. Goodwill recognized in these transactions totaled $65.6 million, which is expected to be fully deductible for tax purposes.

Effective March 18, 2006, the Company sold Highland Medical Center, a 123 bed facility located in Lubbock, Texas, to Shiloh Health Services, Inc. of Louisville, Kentucky. The proceeds from this sale were $0.5 million. This hospital had previously been classified as held for sale. In connection with the above sale transaction and in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” the Company has classified the results of operations of Highland Medical Center as discontinued operations in the accompanying condensed consolidated statements of income.

Net operating revenues and loss from discontinued operations, related to the above mentioned sale, for the six months ended June 30, 2006 (as applicable) are as follows (in thousands):

	Six months ended June 30, 2006
Net operating revenues	$ 4,294
Loss from operations before income taxes	$ (1,008)
Loss on sale of hospital	(3,938)
Loss from discontinued operations, before taxes	(4,946)
Income tax benefit	1,730
Loss from discontinued operations, net of tax	$ (3,216)

Since the sale of Highland Medical Center occurred in the first quarter of 2006, there are no net operating revenues and no loss from discontinued operations for the three months ended June 30, 2006. The computation of the loss from discontinued operations, before taxes, for the six months ended June 30, 2006 includes the net write-off of $4.4 million of tangible assets at the one hospital sold during the six months ended June 30, 2006.

There are no material assets or liabilities related to the hospitals classified as discontinued operations in the accompanying condensed consolidated balance sheets as of June 30, 2007 and December 31, 2006.

6. INCOME TAXES

The Company adopted the provisions of the Financial Accounting Standards Board (“FASB”) Interpretation No. 48, “Accounting for Uncertainty in Income Taxes”, on January 1, 2007. The total amount of unrecognized benefit that would affect the effective tax rate, if recognized, is $9.0 million. It is the Company’s policy to recognize interest accrued related to unrecognized benefits in its statement of operations as income tax expense. Approximately $1.2 million of interest is included in the amount of unrecognized benefit at June 30, 2007. During the year ending December 31, 2007, it is possible the Company could release up to $5.2 million plus accrued interest of $0.8 million of its FASB Interpretation No. 48 liability, as a result of the potential expiration of the statute of limitations pertaining to tax positions taken in prior years relative to legal settlements.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations for years prior to 2003. During 2006, the Company agreed to a settlement at the Internal Revenue Service Appeals Office with respect to the 2003 consolidated income tax year. The Company has since received a closing letter with respect to the examination for the tax year 2003. The settlement was not material to the Company’s consolidated statement of income or financial position.

Cash paid for income taxes, net of refunds received, was $16.2 million and $15.5 million during the three months ended June 30, 2007 and 2006, respectively, and $29.4 million and $36.6 million during the six months ended June 30, 2007 and 2006, respectively.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the six months ended June 30, 2007, are as follows (in thousands):

Balance as of December 31, 2006	$1,336,525
Goodwill acquired as part of acquisitions during 2007	6,577
Consideration adjustments and finalization of purchase price allocations for acquisitions completed prior to 2007	3,476
Goodwill written-off as part of disposal transaction	(1,622)
Balance as of June 30, 2007	$1,344,956

In May 2007, the Company sold certain operations ancillary to one of its hospitals. This transaction and related operations were not material.

The Company completed its most recent annual goodwill impairment test as required by SFAS No. 142, “Goodwill and Other Intangible Assets,” during 2006, using a measurement date of September 30, 2006. Based on the results of the impairment test, the Company was not required to recognize an impairment of goodwill in 2006.

As previously disclosed and further discussed in the footnote on Subsequent Events, on July 25, 2007, the Company completed its acquisition of Triad. In connection with this transaction, the Company has engaged a third-party valuation firm to assist it in determining the fair market value of the tangible and intangible assets acquired from Triad. The Company will make a preliminary allocation of purchase price in the third quarter of 2007 and anticipates that this transaction will create a significant amount of goodwill.

The gross carrying amount of the Company’s other intangible assets was $15.6 million at June 30, 2007 and $13.7 million at December 31, 2006, and the net carrying amount was $9.7 million at June 30, 2007 and $7.4 million at December 31, 2006. Other intangible assets are included in other assets, net on the Company’s condensed consolidated balance sheets.

The weighted-average amortization period for the intangible assets subject to amortization is approximately seven years. There are no expected residual values related to these intangible assets. Amortization expense on these intangible assets during the three months ended June 30, 2007 and 2006 was $0.5 million and $0.4 million, respectively. Amortization expense on these intangible assets during the six months ended June 30, 2007 and 2006 was $1.0 million and $0.9 million, respectively. Amortization expense on intangible assets is estimated to be $1.9 million for the remainder of 2007, $2.1 million in 2008, $1.8 million in 2009, $1.2 million in 2010, $0.6 million in 2011, and $0.5 million in 2012.

8. EARNINGS PER SHARE

The following table sets forth the components of the numerator and denominator for the computation of basic and diluted income from continuing operations per share (in thousands, except share data):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Numerator:				
Numerator for basic earnings per share -				
Income from continuing operations available to common stockholders — basic	$ 53,763	$ 52,369	$ 108,087	$ 109,623
Numerator for diluted earnings per share - Income from continuing operations	$ 53,763	$ 52,369	$ 108,087	$ 109,623
Interest, net of tax, on 4.25% convertible notes	—	—	—	135
Income from continuing operations available to common stockholders — diluted	$ 53,763	$ 52,369	$ 108,087	$ 109,758
Denominator:				
Weighted-average number of shares outstanding — basic	93,518,991	95,769,030	93,373,357	96,158,575
Effect of dilutive securities:				
Non-employee director options	—	11,850	5,913	11,882
Restricted stock awards	181,183	108,432	111,539	76,849
Employee options	947,696	981,003	931,191	996,865
4.25% convertible notes	—	—	—	292,644
Weighted-average number of shares outstanding — diluted	94,647,870	96,870,315	94,422,000	97,536,815
Dilutive securities outstanding not included in the computation of earnings per share because their effect is antidilutive:				
Employee options	1,032,071	1,028,400	1,479,319	1,045,400

9. STOCKHOLDERS' EQUITY

On January 17, 2006, the Company completed the redemption of all its remaining outstanding 4.25% Convertible Subordinated Notes due 2008 (the "4.25% Notes"). Prior to the call for redemption made on December 16, 2005, there was $136.6 million in aggregate principal amount of the 4.25% Notes outstanding. At the conclusion of the call for redemption, $0.1 million in principal amount of the 4.25% Notes were redeemed for cash and $136.5 million of the 4.25% Notes were converted by the holders into 4,074,510 shares of the Company's common stock, $0.01 par value per share.

On January 14, 2006, the Company commenced an open market repurchase program for up to 5,000,000 shares of the Company's common stock, not to exceed $200 million in repurchases. Under this program, the Company repurchased the entire 5,000,000 shares at a weighted average price of $35.23. This program concluded on November 8, 2006 when the maximum number of shares had been repurchased. On December 13, 2006, the Company commenced another open market repurchase program for up to 5,000,000 shares of the Company's common stock not to exceed $200 million in repurchases. This program will conclude at the earlier of three years or when the maximum number of shares have been repurchased. As of June 30, 2007, the Company has not repurchased any shares under this program.

10. COMPREHENSIVE INCOME

The following table presents the components of comprehensive income, net of related taxes. The net change in fair value of interest rate swap agreements is a function of the spread between the fixed interest rate of each swap and the underlying variable interest rate under the Company's credit facility and the change in fair value of available for sale securities is the unrealized gains (losses) on the related investments (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net income	$ 53,763	$ 52,369	$ 108,087	$ 106,407
Net change in fair value of interest rate swaps	13,670	2,370	9,800	7,504
Net change in fair value of available for sale securities	237	(138)	24	28
Comprehensive income	$ 67,670	$ 54,601	$ 117,911	$ 113,939

The net change in fair value of the interest rate swap agreements and the net change in fair value of available for sale securities are included in stockholders' equity on the accompanying condensed consolidated balance sheets.

11. LONG-TERM DEBT

On August 19, 2004, the Company entered into a $1.625 billion senior secured credit facility with a consortium of lenders which was subsequently amended on December 16, 2004, July 8, 2005 and December 13, 2006. The purpose of the facility was to refinance the Company's previous credit agreement, repay specified other indebtedness, and fund general corporate purposes including amending the credit facility to permit declaration and payment of cash dividends, to repurchase shares or make other distributions, subject to certain restrictions. This facility replaced the Company's previous credit facility and consists of a $1.2 billion term loan that matures in 2011 and a $425 million revolving credit facility that matures in 2009. The First Incremental Facility Amendment, dated as of December 13, 2006, increased our term loans by $400 million (the "Incremental Term Loan Facility") and also gave the Company the ability to add up to $400 million of additional term loans. The full amount of the Incremental Term Loan Facility was funded on December 13, 2006, and the proceeds were used to repay the full outstanding amount (approximately $326 million) of the revolving credit facility under the credit agreement and the balance was available to be used for general corporate purposes. The Company may elect from time to time an interest rate per annum for the borrowings under the term loan, including the incremental term loan, and revolving credit facility equal to (a) an alternate base rate, which will be equal to the greatest of (i) the Prime Rate (as defined) in effect and (ii) the Federal Funds Effective Rate (as defined), plus 50 basis points, plus (1) 75 basis points for the term loan and (2) the Applicable Margin (as defined) for revolving credit loans or (b) the Eurodollar Rate (as defined) plus (1) 175 basis points for the term loan and (2) the Applicable Margin for Eurodollar revolving credit loans. The Company also pays a commitment fee for the daily average unused commitments under the revolving credit facility. The commitment fee is based on a pricing grid depending on the Applicable Margin for Eurodollar revolving credit loans and ranges from 0.250% to 0.500%. The commitment fee is payable quarterly in arrears and on the revolving credit termination date with respect to the available revolving credit commitments. In addition, the Company will pay fees for each letter of credit issued under the credit facility. In connection with this refinancing, the Company recorded a pre-tax write-off of approximately $0.8 million in deferred loan costs relative to the early extinguishment of a portion of the previous credit facility.

As of June 30, 2007, the Company's availability for additional borrowings under its revolving credit facility was $425 million, of which $22.4 million was set aside for outstanding letters of credit. The Company also had the ability to add up to $200 million of borrowing capacity from receivable transactions (including securitizations) under its senior secured credit facility which had not yet been accessed. As stated above, the Company also had the ability to amend the senior secured credit facility to provide for one or more tranches of term loans in an aggregate principal amount of $400 million, which the Company had not yet accessed. As of June 30, 2007, the Company's weighted-average interest rate under its credit facility was 7.5%.

11. LONG TERM DEBT (Continued)

Cash paid for interest, net of interest income, was $34.6 million and $28.1 million during the three months ended June 30, 2007 and 2006, respectively, and $60.3 million and $47.4 million during the six months ended June 30, 2007 and 2006, respectively.

As previously disclosed and further discussed in the footnote on Subsequent Events, in connection with the consummation of the acquisition of Triad on July 25, 2007, the Company used a portion of the net proceeds from its New Credit Facility and Notes offering to repay its outstanding debt under the above mentioned credit facility. Upon repayment, the above mentioned credit facility was terminated.

The Company has entered into this New Credit Facility with a syndicate of financial institutions led by Credit Suisse, as administrative agent and collateral agent. The New Credit Facility consists of a $6.065 billion funded term loan facility with a maturity of seven years, a $400 million delayed draw term loan facility with a maturity of seven years and a $750 million revolving credit facility with a maturity of six years. The revolving credit facility also will include a subfacility for letters of credit and a swingline subfacility. The New Credit Facility requires the Company to make quarterly amortization payments of each term loan facility in quarterly amounts equal to 0.25% of the outstanding amount of the term loans, if any, with the outstanding principal balance payable on the anniversary of the New Credit Facility in 2014.

The term loan facility must be prepaid in an amount equal to (1) 100% of the net cash proceeds of certain asset sales and dispositions by the Company and its subsidiaries, subject to certain exceptions and reinvestment rights, (2) 100% of the net cash proceeds of issuances of certain debt obligations by the Company and its subsidiaries, subject to certain exceptions, and (3) 50%, subject to reduction to a lower percentage based on the Company's leverage ratio, of excess cash flow for any year, commencing in 2008, subject to certain exceptions.

Voluntary prepayments and commitment reductions are permitted in whole or in part, without any premium or penalty, subject to minimum prepayment or reduction requirements.

All of the Company's obligations under the New Credit Facility are unconditionally guaranteed by the Company and certain existing and subsequently acquired or organized domestic subsidiaries. All obligations under the New Credit Facility and the related guarantees will be secured by a perfected first priority lien or security interest in substantially all of the Company's assets and each subsidiary guarantor's assets, including equity interests held by the Company or any subsidiary guarantor, excluding, among others, the equity interests of non-significant subsidiaries, syndication subsidiaries, securitization subsidiaries and joint venture subsidiaries. The loans under the New Credit Facility will bear interest on the outstanding unpaid principal amount at a rate equal to an applicable percentage plus, at the Company's option, either (a) an alternative base rate determined by reference to the greater of (1) the prime rate announced by Credit Suisse and (2) the federal funds rate plus one-half of 1.0%, or (b) a reserve adjusted Eurodollar rate. The applicable percentage for term loans is 1.25% for alternative base rate loans and 2.25% for Eurodollar rate loans, and the applicable percentage for revolving loans will be up to 1.25% for alternative base rate revolving loans and up to 2.25% for Eurodollar revolving loans, in each case based on the Company's leverage ratio. Loans under the swingline subfacility bear interest at the rate applicable to alternative base rate loans under the revolving credit facility.

The Company has agreed to pay letter of credit fees equal to the applicable percentage then in effect with respect to Eurodollar rate loans under the revolving credit facility times the maximum aggregate amount available to be drawn under all letters of credit issued under the subfacility for letters of credit. The issuer of any letter of credit issued under the subfacility for letters of credit will also receive a customary fronting fee and other customary processing charges. The Company is also obligated to pay commitment fees, depending on our total leverage ratio, of up to 0.50% per annum, on the unused portion of the revolving credit facility. For purposes of this calculation, swingline loans are not treated as usage of the revolving credit facility. The Company will also pay arrangement fees on the closing of the New Credit Facility and an annual administrative agent fee.

11. LONG TERM DEBT (Continued)

The New Credit Facility contains customary representations and warranties, subject to limitations and exceptions, and customary covenants restricting the Company and its subsidiaries' ability to, among other things and subject to various exceptions, (1) declare dividends, make distributions or redeem or repurchase capital stock, (2) prepay, redeem or repurchase other debt, (3) incur liens or grant negative pledges, (4) make loans and investments and enter into acquisitions and joint ventures, (5) incur additional indebtedness, (6) make capital expenditures, (7) engage in mergers, acquisitions and asset sales, (8) conduct transactions with affiliates, (9) alter the nature of the Company's businesses, or (10) change the Company's fiscal year. The Company and its subsidiaries are also required to comply with specified financial covenants (consisting of a leverage ratio and an interest coverage ratio) and various affirmative covenants.

Events of default under the New Credit Facility include, but are not limited to, (1) the Company's failure to pay principal, interest, fees or other amounts under the credit agreement when due (taking into account any applicable grace period), (2) any representation or warranty proving to have been materially incorrect when made, (3) covenant defaults subject, with respect to certain covenants, to a grace period, (4) bankruptcy events, (5) a cross default to certain other debt, (6) certain undischarged judgments (not paid within an applicable grace period), (7) a change of control, (8) certain ERISA-related defaults, and (9) the invalidity or impairment of specified security interests.

The Notes issued in connection with the Triad acquisition were issued in the principal amount of $3.021 billion. These Notes will mature on July 15, 2015. Interest on the Notes will accrue at the rate of 8.875% per annum and will be payable semiannually in arrears on January 15 and July 15, commencing January 15, 2008. Interest on the Notes will accrue from the date of original issuance. Interest will be calculated on the basis of 360-day year comprised of twelve 30-day months.

Except as set forth below, the Issuer is not entitled to redeem the Notes at its option prior to July 15, 2011.

On and after July 15, 2011, the Issuer is entitled at its option to redeem all or a portion of the 2015 Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as a percentage of principal amount on the redemption date), plus accrued interest to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12 month period commencing on July 15 of the years set forth below:

Period	Redemption Price
2011	104.438%
2012	102.219%
2013 and thereafter	100.000%

In addition, any time prior to July 15, 2010, the Issuer is entitled at its option on one or more occasions to redeem the Notes (which include additional Notes, if any) in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the Notes (which includes additional Notes, if any) originally issued at a redemption price (expressed as a percentage of principal amount) of 108.875%, plus accrued and unpaid interest to the redemption date, with the Net Cash Proceeds (as defined) from one or more Public Equity Offerings (provided that if the Public Equity Offering (as defined) is an offering by Parent, a portion of the Net Cash Proceeds (as defined) thereof equal to the amount required to redeem any such Notes is contributed to the equity capital of the Issuer); provided, however, that

(1) at least 65% of such aggregate principal amount of Notes originally issued remains outstanding immediately after the occurrence of each such redemption (other than the Notes held, directly or indirectly, by the Company or its Subsidiaries); and

(2) each such redemption occurs within 90 days after the date of the related Public Equity Offering.

The Issuer is entitled at its option to redeem the Notes, in whole or in part, at any time prior to July 15, 2011, upon not less than 30 or more than 60 days notice, at a redemption price equal to 100% of the principal amount of Notes redeemed plus the Application Premium (as defined) and accrued and unpaid interest, if any, as of the applicable redemption date.

The Notes are unsecured obligations of the Company. Secured debt and other secured obligation of the Company (including obligations with respect to the New Credit Facility) will be effectively senior to the Notes to the extent of the value of the assets securing such debt or other obligations.

The Issuer has agreed, pursuant to the Registration Rights Agreement, that it will be subject to certain exceptions, file a registration statement (the "Exchange Offer Registration Statement") with the SEC within 90 days of the date the Notes were issued (the "Issue Date") to make an offer to exchange the Notes for new notes (the "Exchange Notes") having terms substantially identical in all material respects to the Notes. If the Exchange Offer Registration Statement is not filed with the SEC within that 90 day period ,the Exchange Offer Registration Statement is not declared effective by the SEC on or prior to the 210th day after the Issue Date, the exchange offer is not consummated on or before the 40th day after the Exchange Offer Registration Statement is declared effective or certain other circumstances (each, a "Registration Default"), additional interest will be paid on the Notes at a rate of 0.25% per annum for the first 90 day period following the Registration Default, and such rate will increase by an additional 0.25% per annum with respect to each subsequent 90 day period until all Registration Defaults have been cured, up to a maximum additional interest rate of 1.0% per annum.

12. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements”, which defines fair value, provides framework for measuring fair value, and expands the disclosures required for fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require fair value measurements; it does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by the Company beginning in the first quarter of 2008. Although the Company will continue to evaluate the application of SFAS No. 157, management does not currently believe adoption will have a material impact on the Company’s results of operations or financial position.

13. CONTINGENCIES

The Company is a party to various legal proceedings incidental to its business. In the opinion of management, any ultimate liability with respect to these actions will not have a material adverse effect on the Company’s consolidated financial position, cash flows or results of operations. In addition, in connection with the closing of the Triad acquisition on July 25, 2007, the Company has assumed both recorded and unrecorded contingencies of Triad. The Company’s management is not aware of any unrecorded contingencies, assumed in connection with the Triad acquisition, whose ultimate outcome will have an adverse effect on the Company’s consolidated financial position, cash flows or results of operations.

14. SUBSEQUENT EVENTS

On July 25, 2007, the Company completed its acquisition of Triad (former NYSE: TRI). Pursuant to the merger agreement under which the acquisition was completed, shareholders of Triad received $54 in cash per share of common stock, or approximately $6.968 billion in the aggregate, including the assumption of approximately $1.702 billion of existing indebtedness of Triad. Triad stock ceased to trade on the New York Stock Exchange effective at the close of business on July 25, 2007.

In connection with the consummation of the Triad merger, the Company obtained $7.215 billion of senior secured financing under the New Credit Facility and the Issuer, issued $3.021 billion aggregate principal amount ($3.000 billion, net of discount) of its 8.875% senior notes due 2015 at the closing of the merger. The Notes are senior obligations of the Issuer and are guaranteed on a senior basis by the Company and by certain of the Company’s domestic subsidiaries. The Company used the net proceeds from the Notes offering and the net proceeds of the $6.065 billion of term loans under the New Credit Facility to pay the consideration under the merger agreement, to repay certain of its indebtedness, including the repayment of term loans under its existing credit agreement and indebtedness of Triad, to complete certain related transactions, to pay certain costs and expenses of the transactions and for general corporate uses. A $750 million revolving credit facility and a $400 million delayed draw term loan facility is available to the Company for working capital and general corporate purposes under the new credit facility. The revolving credit facility also will include a subfacility for letters of credit and a swingline subfacility. Also, in connection with the consummation of the merger, the Company completed an early repayment of its outstanding $300 million aggregate principal amount of 6-1/2% Senior Subordinated Notes due 2012 through a cash tender offer and consent solicitation.

15. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The 8.875% Senior Notes maturing July 15, 2015, issued in connection with the Company's July 25, 2007 acquisition of Triad Hospitals Inc., are fully and unconditionally guaranteed by the Company and certain of its current and future, direct and indirect, 100% owned domestic subsidiaries. Such guarantees are joint and several. The following condensed consolidating financial statements present the parent guarantor, the issuer, the subsidiary guarantors, the subsidiary non-guarantors and eliminations. This condensed consolidating financial information has been prepared and presented in accordance with SEC Regulation S-X Rule 3-10 "Financial Statements of Guarantors and Affiliates whose Securities Collateralize an issue Registered or Being Registered".

15. Supplemental Condensed Consolidating Financial Information (Continued)

CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
December 31, 2006:						
ASSETS						
Current assets:						
Cash and cash equivalents	$ —	$ —	$ 28,713	$ 11,853	$ —	$ 40,566
Patient accounts receivable, net of allowance for doubtful accounts	—	—	634,227	139,757	—	773,984
Supplies	—	—	94,070	19,250	—	113,320
Deferred income taxes	13,249	—	—	—	—	13,249
Prepaid expenses and taxes	—	—	32,447	(62)	—	32,385
Other current assets	—	—	27,727	20,153	—	47,880
Total current assets	13,249	—	817,184	190,951	—	1,021,384
Property and equipment, net	—	—	1,657,517	329,060	—	1,986,577
Goodwill	—	—	1,178,014	158,511	—	1,336,525
Other assets, net of accumulated amortization	—	20,804	127,367	13,922	—	162,093
Investment in subsidiaries	1,081,747	1,068,432	367,456	—	(2,517,635)	—
Total assets	$ 1,094,996	$ 1,089,236	$ 4,147,538	$ 692,444	$ (2,517,635)	$ 4,506,579
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Current maturities of long-term debt	$ —	$ 16,000	$ 20,375	$ (979)	$ —	$ 35,396
Accounts payable	—	—	209,354	38,393	—	247,747
Current income taxes payable	—	—	7,626	—	—	7,626
Deferred income taxes - current	—	—	—	—	—	—
Net investment in subsidiary — liability	—	—	—	—	—	—
Accrued liabilities:						
Employee compensation	—	—	132,883	29,305	—	162,188
Interest	867	5,866	316	73	—	7,122
Other	—	—	91,096	24,108	—	115,204
Total current liabilities	867	21,866	461,650	90,900	—	575,283
Long-term debt	300,000	1,556,000	48,962	819	—	1,905,781
Deferred income taxes	141,472	—	—	—	—	141,472
Other long-term liabilities	—	—	125,427	34,943	—	160,370
Intercompany payable	(1,071,016)	(1,570,373)	2,447,810	625,088	(431,509)	—
Stockholders' equity:						
Preferred Stock						
Common Stock	950	—	1	2	(3)	950
Additional paid-in Capital	1,195,947	—	—	(1)	1	1,195,947
Treasury stock, at cost	(6,678)	—	—	—	—	(6,678)
Accumulated other comprehensive income	5,798	5,798	(7,516)	—	1,718	5,798
Retained earnings	527,656	1,075,945	1,071,204	(59,307)	(2,087,842)	527,656
Total stockholders' equity	1,723,673	1,081,743	1,063,689	(59,306)	(2,086,126)	1,723,673
Total liabilities and stockholders' equity	$ 1,094,996	$ 1,089,236	$ 4,147,538	$ 692,444	$ (2,517,635)	$ 4,506,579

15. Supplemental Condensed Consolidating Financial Information (Continued)

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
June 30, 2007:						
ASSETS						
Current Assets						
Cash and cash equivalents	$ —	$ —	$ 3,695	$ 17,662		$ 21,357
Patient accounts receivable, net of allowance for doubtful accounts	—	—	693,496	183,027		876,523
Supplies	—	—	96,579	25,385		121,964
Prepaid income taxes	—	—	—	—		—
Deferred income taxes	13,249	—	—	—		13,249
Prepaid expenses	—	—	44,099	(7,812)		36,287
Other current assets	—	1,000	37,631	24,302	—	62,933
Total current assets	13,249	1,000	875,500	242,564	—	1,132,313
Property and equipment, net	—	—	1,707,440	381,702	—	2,089,142
Goodwill	—	—	1,184,171	160,785		1,344,956
Net investment in subsidiaries	1,265,254	1,242,139	415,423	—	(2,922,816)	—
Other Assets, net of accumulated amortization of $95,695 at June 30, 2007	—	36,117	174,348	16,235		226,700
Total assets	$ 1,278,503	$ 1,279,256	$ 4,356,882	$ 801,286	$ (2,922,816)	$ 4,793,111
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current Liabilities						
Current maturities of long-term debt	$ —	$ 16,000	$ 9,325	$ 432	$ —	$ 25,757
Accounts payable	—	—	216,500	41,230	—	257,730
Current income taxes payable	—	—	49,010	—	—	49,010
Deferred income taxes - current	—	—	—	—	—	—
Net investment in subsidiary — liability	—	—	—	—	—	—
Accrued liabilities						
Employee compensation	—	—	126,384	38,749	—	165,133
Interest	867	6,971	469	68	—	8,375
Other	—	—	85,267	19,752	—	105,019
Total current liabilities	867	22,971	486,955	100,231	—	611,024
Long-term debt	300,000	1,626,000	47,886	354	—	1,974,240
Deferred income taxes	141,472	—	—	—	—	141,472
Other long-term liabilities	—	—	165,133	40,275	—	205,408
Intercompany	(1,024,803)	(1,634,966)	2,420,325	722,874	(483,430)	—
Stockholders' equity						
Preferred stock	—	—	—	—	—	—
Common stock	959	—	1	2	(3)	959
Additional paid-in capital	1,215,321	—	—	—	—	1,215,321
Treasury stock, at cost, 975,549 shares	(6,678)	—	—	—	—	(6,678)
Accumulated other comprehensive income	15,622	15,622	(7,493)	—	(8,129)	15,622
Retained earnings	635,743	1,249,629	1,244,075	(62,450)	(2,431,254)	635,743
Total stockholders' equity	1,860,967	1,265,251	1,236,583	(62,448)	(2,439,386)	1,860,967
Total liabilities and stockholders' equity	$ 1,278,503	$ 1,279,256	$ 4,356,882	$ 801,286	$ (2,922,816)	$ 4,793,111

15. Supplemental Condensed Consolidating Financial Information (Continued)

CONSOLIDATED STATEMENTS OF INCOME
Six Months Ended June 30, 2007
(Amounts in thousands)

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
Net Revenue	$ —	$ —	$1,947,912	$505,213		$2,453,125
Expenses and Costs:						
Salaries and benefits	—	—	741,823	239,598		981,421
Provision for bad debts	—	—	233,289	51,071		284,360
Supplies	—	—	225,065	61,476		286,541
Other operating expenses	—	—	392,311	111,504		503,815
Rent	—	—	38,074	16,166		54,240
Minority Interests in Earnings	—	—	—	818	—	818
Depreciation & Amortization	—	—	86,461	18,158		104,619
Equity in earnings of subsidiary	(175,752)	(175,752)	3,955		347,549	—
Total operating costs and expenses	(175,752)	(175,752)	1,720,978	498,791	347,549	2,215,814
Income from operations	175,752	175,752	226,934	6,422	(347,549)	237,311
Interest expense, net	—	—	51,995	9,564		61,559
Loss from early extinguishment of debt	—	—	—	—	—	—
Income from continuing operations before income taxes	175,752	175,752	174,939	(3,142)	(347,549)	175,752
Provision for income taxes	67,665		—	—		67,665
Income from continuing operations	108,087	175,752	174,939	(3,142)	(347,549)	108,087
Discontinued operations:						
Income (loss) from operations of disc hospitals sold				—		—
Loss on sale of hospitals				—		—
Income (loss) from operations of hospital held for sale				—		—
Impairment of assets held for sale				—		—
Loss on discontinued operations	—	—	—	—	—	—
Net Income	$ 108,087	$ 175,752	$ 174,939	$ (3,142)	$(347,549)	$ 108,087

15. Supplemental Condensed Consolidating Financial Information (Continued)

CONSOLIDATED STATEMENTS OF INCOME
Six Months Ended June 30, 2006
(Amounts in Thousands)

	Parent Guarantor	Issuer	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
Net Revenue	$ —	$ —	$ 1,669,845	$ 417,771	$ —	$ 2,087,616
Expenses and Costs:						
Salaries and benefits	—	—	643,365	184,450	—	827,815
Provision for bad debts	—	—	171,448	51,847	—	223,295
Supplies	—	—	199,683	48,837	—	248,520
Other operating expenses	—	—	329,061	97,095	—	426,156
Rent	—	—	33,376	13,252	—	46,628
Minority Interests in Earnings	—	—	13	1,055	—	1,068
Depreciation & Amorization	—	—	74,588	15,101	—	89,689
Equity in earnings of subsididary	(175,572)	(175,572)	5,904		345,240	—
Total operating costs and expenses	(175,572)	(175,572)	1,457,438	411,637	345,240	1,863,171
Income from operations	175,572	175,572	212,407	6,134	(345,240)	224,445
Interest expense, net	—	—	37,153	8,504		45,657
Loss from early extinguishment of debt	—	—	—	—	—	—
Income from continuing operations before income taxes	175,572	175,572	175,254	(2,370)	(345,240)	178,788
Provision for income taxes	69,165		—	—		69,165
Income from continuing operations	106,407	175,572	175,254	(2,370)	(345,240)	109,623
Discontinued operations:						
Income (loss) from operations of disc hospitals sold				(657)		(657)
Loss on sale of hospitals				(2,559)		(2,559)
Income (loss) from operations of hospital held for sale				—		—
Impairment of assets held for sale				—		—
Loss on discontinued operations	—	—	—	(3,216)	—	(3,216)
Net Income	$ 106,407	$ 175,572	$ 175,254	$ (5,586)	$ (345,240)	$ 106,407

15. Supplemental Condensed Consolidating Financial Information (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amount in thousands)

	Parent Guarantor	Issuer	Other Guarantors	Non Guarantors	Eliminations	Consolidated
Six Months Ended June 30, 2007:						
Cash flows from operating activities						
Net income	$ 108,087	$ 175,752	$ 174,939	$ (3,142)	$ (347,549)	$ 108,087
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	—	—	86,461	18,158	—	104,619
Deferred income taxes	—	—	—	—	—	—
Equity-based compensation expense	14,295	—	—	—	—	14,295
Excess tax benefits relating to stock-based compensation	(2,295)	—	—	—	—	(2,295)
Minority interest in earnings	—	—	—	818	—	818
Impairment on hospital held for sale	—	—	—	—	—	—
(Gain) Loss on Sale of Hospitals	—	—	—	(2,032)	—	(2,032)
Other non-cash expenses, net	—	—	229	261	—	490
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:						
Patient accounts receivable	—	—	(38,145)	(9,270)	—	(47,415)
Supplies, prepaid expenses and other current assets	—	(2,000)	(19,062)	7,604	—	(13,458)
Accounts payable, accrued liabilities and income taxes	(1,656)	(4,408)	58,691	(6,274)	—	46,353
Advances to subsidiaries, net of return on investment	(137,294)	(240,368)	(77,539)	107,652	347,549	—
Other	9,824	24	3,198	(6,520)	—	6,526
Net cash provided by(used in) operating activities	(9,039)	(71,000)	188,772	107,255	—	215,988
Cash flows from investing activities						
Acquisitions of facilities and other related equipment	—	—	(101,923)	(86,032)	—	(187,955)
Purchases of property and equipment	—	—	(93,726)	(15,123)	—	(108,849)
Sale of facilities	—	—	—	12,662	—	12,662
Proceeds from sale of equipment	—	—	203	31	—	234
Investment in other assets	—	—	(15,716)	(9,646)	—	(25,362)
Net cash provided by (used in) investing activities	—	—	(211,162)	(98,108)	—	(309,270)
Cash flows from financing activities						
Proceeds from exercise of stock options	6,693	—	—	—	—	6,693
Stock buy-back	—	—	—	—	—	—
Deferred financing costs	—	—	(367)	—	—	(367)
Excess tax benefits relating to stock-based compensation	2,295	—	—	—	—	2,295
Redemption of convertible notes	—	—	—	—	—	—
Proceeds from minority investors in joint ventures	51	—	—	1,054	—	1,105
Redemption of minority investments in joint ventures	—	—	—	(1,369)	—	(1,369)
Distribution to minority investors in joint ventures	—	—	—	(1,705)	—	(1,705)
Borrowings under credit agreement	—	132,000	—	—	—	132,000
Repayments of long-term indebtedness	—	(61,000)	(2,261)	(1,318)	—	(64,579)
Net cash provided by (used in) financing activities	9,039	71,000	(2,628)	(3,338)	—	74,073
Net change in cash and cash equivalents	—	—	(25,018)	5,809	—	(19,209)
Cash and cash equivalents at beginning of period	—	—	28,713	11,853	—	40,566
Cash and cash equivalents at end of period	$ —	$ —	$ 3,695	$ 17,662	$ —	$ 21,357

15. Supplemental Condensed Consolidating Financial Information (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Parent Guarantor	Issuer	Other Guarantors	Non Guarantors	Eliminations	Consolidated
Six Months ended June 30, 2006:						
Cash flows from operating activities						
Net income	$ 106,407	$ 175,572	$ 175,254	$ (5,586)	$(345,240)	$ 106,407
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	—	—	74,588	15,101	—	89,689
Deferred income taxes	—	—	—	—	—	—
Equity-based compensation expense	8,946	—	—	—	—	8,946
Excess tax benefits relating to stock-based compensation	(4,588)	—	—	—	—	(4,588)
Loss on early extinguishment of debt	—	—	—	—	—	—
Minority interest in earnings	—	—	—	1,068	—	1,068
Impairment on hospital held for sale	—	—	—	—	—	—
(Gain) Loss on Sale of Hospitals	—	—	—	3,937	—	3,937
Other non-cash expenses, net	4	—	193	(828)	—	(631)
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:						
Patient accounts receivable	—	—	(54,405)	(3,556)	—	(57,961)
Supplies, prepaid expenses and other current assets	—	—	(13,441)	13,348	—	(93)
Accounts payable, accrued liabilities and income taxes	2,704	452	88,572	(21,740)		69,988
Advances to subsidiaries, net of return on investment	5,121	(307,832)	(52,162)	9,633	345,240	—
Other	5,913	(4,192)	(8,939)	(2,498)	—	(9,716)
Net cash provided by(used in) operating activities	$ 124,507	$(136,000)	$ 209,660	$ 8,879	$ —	$ 207,046
Cash flows from investing activities						
Acquisitions of facilities and other related equipment	—	—	(180,686)	2,671	—	(178,015)
Purchases of property and equipment	—	—	(89,755)	(4,439)	—	(94,194)
Sale of facilities	—	—	—	750	—	750
Proceeds from sale of equipment	—	—	73	1	—	74
Investment in other assets	—	—	(11,782)	(12,601)	—	(24,382)
	—	—	(282,150)	(13,617)	—	(295,767)
Cash flows from financing activities						
Proceeds from exercise of stock options	8,698	—	—	1	—	8,699
Stock buy-back	(137,665)	—	—	(1)	—	(137,666)
Deferred financing costs	—	—	(16)	—	—	(16)
Excess tax benefits relating to stock based compensation	4,588	—	—	—	—	4,588
Redemption of convertible notes	(128)	—	—	—	—	(128)
Proceeds from minority investors in joint ventures	—	—	—	3,060	—	3,060
Redemption of minority investments in joint ventures	—	—	—	(530)	—	(530)
Distribution to minority investors in joint ventures	—	—	—	(1,977)	—	(1,977)
Borrowings under credit agreement	—	176,000	—	—	—	176,000
Repayments of long-term indebtedness	—	(40,000)	(2,643)	(617)	—	(43,260)
Net cash provided by (used in) financing activities	(124,507)	136,000	(2,659)	(64)	—	8,770
Net change in cash and cash equivalents	—	—	(75,149)	(4,802)	—	(79,951)
Cash and cash equivalents at beginning of period	—	—	83,579	20,529	—	104,108
Cash and cash equivalents at end of period	$ —	$ —	$ 8,430	$ 15,727	$ —	$ 24,157

Exhibit 99.3

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Triad Hospitals, Inc.

We have audited the accompanying consolidated balance sheets of Triad Hospitals, Inc. as of December 31, 2006 and 2005, and the related consolidated statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the management of Triad Hospitals, Inc. (the "Company"). Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Triad Hospitals, Inc. at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 2 and 13 to the consolidated financial statements, in 2006 the Company changed its method of accounting for share-based compensation, physician income guarantees and retirement plans.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Triad Hospitals, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 27, 2007 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG, LLP

Dallas, Texas
February 27, 2007,
except for Note 22, as to which the date is September 21, 2007

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to "we," "our," "us" and "the Company" refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

	2006	2005	2004
	(Dollars in millions, except per share amounts)		
Revenues	$5,537.9	$4,747.3	$4,218.0
Salaries and benefits, including share-based compensation expense of $27.7, $2.0 and $1.1 for the years ended December 31, 2006, 2005, and 2004, respectively	2,233.1	1,940.2	1,695.4
Reimbursable expenses	49.7	51.1	51.1
Supplies	957.9	801.3	692.4
Other operating expenses	1,069.8	874.0	781.2
Provision for doubtful accounts	576.9	403.3	427.2
Depreciation	223.2	199.6	172.3
Amortization	6.6	6.3	6.3
Interest expense, net of capitalized interest of $5.2, $5.5 and $5.6 for the years ended December 31, 2006, 2005, and 2004, respectively	115.3	110.6	113.7
Interest income	(20.0)	(9.0)	(2.6)
Refinancing transaction costs	—	8.4	76.0
ESOP expense	12.5	14.1	10.3
Gain on sales of assets	(6.0)	(0.4)	—
	5,219.0	4,399.5	4,023.3
Income from continuing operations before minority interests, equity in earnings and income tax provision	318.9	347.8	194.7
Minority interests in earnings of consolidated entities	(22.0)	(11.5)	(1.4)
Equity in earnings of unconsolidated affiliates	43.5	35.0	20.5
Income from continuing operations before income tax provision	340.4	371.3	213.8
Income tax provision	(132.5)	(141.9)	(81.8)
Income from continuing operations	207.9	229.4	132.0
Income (loss) from discontinued operations, net of tax	14.4	(3.4)	59.0
Net income	$ 222.3	$ 226.0	$ 191.0
Income (loss) per common share:			
Basic:			
Continuing operations	$ 2.41	$ 2.80	$ 1.76
Discontinued operations	$ 0.17	$ (0.04)	$ 0.78
Net income	$ 2.58	$ 2.76	$ 2.54
Diluted:			
Continuing operations	$ 2.38	$ 2.74	$ 1.72
Discontinued operations	$ 0.17	$ (0.04)	$ 0.77
Net income	$ 2.55	$ 2.70	$ 2.49

The accompanying notes are an integral part of the consolidated financial statements.

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to "we," "our," "us" and "the Company" refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2006 AND 2005

	2006	2005
	(Dollars in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 208.6	$ 310.2
Accounts receivable, less allowances for doubtful accounts of $416.3 and $292.8 at December 31, 2006 and 2005, respectively	917.9	800.2
Inventories	149.4	130.0
Deferred income taxes	38.4	31.8
Prepaid expenses	52.1	41.1
Discontinued operations assets	—	67.6
Other	128.0	93.0
	1,494.4	1,473.9
Property and equipment, at cost:		
Land	212.0	182.3
Buildings and improvements	2,011.7	1,739.3
Equipment	1,705.4	1,449.1
Construction in progress (estimated cost to complete and equip after December 31, 2006 $745.1)	238.8	226.3
	4,167.9	3,597.0
Accumulated depreciation	(1,227.7)	(1,012.8)
	2,940.2	2,584.2
Goodwill	1,359.7	1,301.6
Intangible assets, net of accumulated amortization	81.1	71.7
Investment in and advances to unconsolidated affiliates	242.9	204.8
Other	115.5	100.7
Total assets	$ 6,233.8	$ 5,736.9
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 249.8	$ 197.5
Accrued salaries	127.0	126.8
Current portion of long-term debt	21.3	7.7
Current income taxes payable	—	17.1
Discontinued operations liabilities	—	3.1
Other current liabilities	203.4	163.1
	601.5	515.3
Long-term debt	1,684.1	1,695.8
Other liabilities	187.5	167.8
Commitments and contingencies	—	—
Deferred income taxes	193.5	201.9
Minority interests in equity of consolidated entities	340.8	228.4
Stockholders' equity:		
Common stock $0.01 par value: 120,000,000 shares authorized, 88,339,049 and 86,373,170 shares issued and outstanding at December 31, 2006 and 2005, respectively	0.9	0.9
Additional paid-in capital	2,410.5	2,331.6
Unearned ESOP compensation	(6.9)	(10.4)
Accumulated other comprehensive loss	(7.6)	(1.6)
Accumulated earnings	829.5	607.2
Total stockholders' equity	3,226.4	2,927.7
Total liabilities and stockholders' equity	$ 6,233.8	$ 5,736.9

The accompanying notes are an integral part of the consolidated financial statements.

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to "we," "our," "us" and "the Company" refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

CONSOLIDATED STATEMENTS OF EQUITY

For The Years Ended December 31, 2006, 2005 And 2004

	Common Stock		Additional Paid-in Capital	Unearned ESOP Compensation	Accumulated Other Comprehensive Loss	Accumulated Earnings	Total Stockholders' Equity
	Shares	Amount	(Dollars in millions)				
Balance at January 1, 2004	75,633,354	$ 0.8	$ 1,904.6	$ (17.2)	$ (2.1)	$ 190.2	$ 2,076.3
Net income	—	—	—	—	—	191.0	191.0
Net change in minimum pension liability, net of income tax benefit of $0.8	—	—	—	—	(1.4)	—	(1.4)
Unrealized gain on marketable equity securities	—	—	—	—	0.1	—	0.1
Reclassification of gain on marketable equity securities included in net income	—	—	—	—	(0.1)	—	(0.1)
Net change in fair value of interest rate swaps, net of income tax provision of $1.1	—	—	—	—	1.8	—	1.8
Comprehensive income	—	—	—	—	—	—	191.4
Issuance of common stock under employee plans	361,643	—	10.4	—	—	—	10.4
Stock options exercised	2,211,027	—	39.7	—	—	—	39.7
Income tax benefit from stock options exercised	—	—	14.1	—	—	—	14.1
ESOP compensation earned	—	—	6.9	3.4	—	—	10.3
Share-based compensation expense	—	—	1.1	—	—	—	1.1
Balance at December 31, 2004	78,206,024	0.8	1,976.8	(13.8)	(1.7)	381.2	2,343.3
Net income	—	—	—	—	—	226.0	226.0
Net change in minimum pension liability, net of income tax benefit of $0.2	—	—	—	—	(0.2)	—	(0.2)
Net change in fair value of interest rate swaps, net of income tax provision of $0.3	—	—	—	—	0.3	—	0.3
Comprehensive income	—	—	—	—	—	—	226.1
Issuance of common stock, net of expenses	4,289,443	0.1	218.1	—	—	—	218.2
Issuance of common stock under employee plans	490,493	—	12.3	—	—	—	12.3
Stock options exercised	3,387,210	—	87.8	—	—	—	87.8
Income tax benefit from stock options exercised	—	—	23.9	—	—	—	23.9
ESOP compensation earned	—	—	10.7	3.4	—	—	14.1
Share-based compensation expense	—	—	2.0	—	—	—	2.0
Balance at December 31, 2005	86,373,170	0.9	2,331.6	(10.4)	(1.6)	607.2	2,927.7
Net income	—	—	—	—	—	222.3	222.3
Net change in foreign currency translation adjustment, net of income tax benefit	—	—	—	—	(0.1)	—	(0.1)
Comprehensive income	—	—	—	—	—	—	222.2
Adjustments to initially apply FASB Statement No. 158, net of income tax benefit of $3.4	—	—	—	—	(5.9)	—	(5.9)
Issuance of common stock under employee plans	1,076,171	—	14.0	—	—	—	14.0
Stock options exercised	889,708	—	23.6	—	—	—	23.6
Income tax benefit from stock options exercised	—	—	4.6	—	—	—	4.6
ESOP compensation earned	—	—	9.0	3.5	—	—	12.5
Share-based compensation expense	—	—	27.7	—	—	—	27.7
Balance at December 31, 2006	88,339,049	$ 0.9	$ 2,410.5	$ (6.9)	$ (7.6)	$ 829.5	$ 3,226.4

The accompanying notes are an integral part of the consolidated financial statements.

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to “we,” “our,” “us” and “the Company” refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For The Years Ended December 31, 2006, 2005 And 2004

	2006	2005	2004
		(Dollars in millions)	
Cash flows from operating activities:			
Net income	$ 222.3	$ 226.0	$ 191.0
Adjustments to reconcile net income to net cash provided by operating activities:			
(Income) loss from discontinued operations, net of tax	(14.4)	3.4	(59.0)
Provision for doubtful accounts	576.9	403.3	427.2
Depreciation and amortization	229.8	205.9	178.6
ESOP expense	12.5	14.1	10.3
Minority interests	22.0	11.5	1.4
Equity in earnings of unconsolidated affiliates	(43.5)	(35.0)	(20.5)
Gain on sales of assets	(6.0)	(0.4)	—
Deferred income tax provision (benefit)	(5.7)	12.2	3.3
Non-cash interest expense	3.4	4.0	5.8
Refinancing transaction costs	—	8.4	76.0
Non-cash share-based compensation expense	27.7	2.0	1.1
Excess tax benefits on share-based compensation	(1.7)	—	—
Increase (decrease) in cash from operating assets and liabilities (net of acquisitions):			
Accounts receivable	(664.4)	(549.9)	(470.6)
Inventories and other assets	(91.8)	(16.9)	(14.0)
Accounts payable and other current liabilities	5.0	107.0	(7.5)
Other	31.3	24.0	35.0
Net cash provided by operating activities	303.4	419.6	358.1
Cash flows from investing activities:			
Purchases of property and equipment	(461.8)	(393.7)	(436.0)
Distributions and advances from unconsolidated affiliates, net	1.8	20.3	12.7
Proceeds received on disposals of assets	117.1	50.5	230.5
Acquisitions, net of cash acquired of $5.1 and $0.6 for the years ended December 31, 2006 and 2005, respectively	(124.7)	(277.5)	(16.9)
Collections on notes receivable	—	15.9	—
Other	(0.3)	—	(0.2)
Net cash used in investing activities	(467.9)	(584.5)	(209.9)
Cash flows from financing activities:			
Payments of issuance of long-term debt	(7.6)	(484.6)	(769.8)
Proceeds from issuance of long-term debt	—	520.0	675.0
Payment of debt issue costs	—	(6.4)	(8.7)
Payment of refinancing transaction costs	—	—	(65.8)
Proceeds from issuance of common stock	37.6	318.3	50.1
Excess tax benefits on share-based compensation	1.7	—	—
Contributions from minority partners, net of distributions	31.2	71.2	13.4
Net cash provided by (used in) financing activities	62.9	418.5	(105.8)
Change in cash and cash equivalents	(101.6)	253.6	42.4
Cash and cash equivalents at beginning of period	310.2	56.6	14.2
Cash and cash equivalents at end of period	$ 208.6	$ 310.2	$ 56.6
Cash paid for:			
Interest	$ 117.0	$ 111.9	$ 117.7
Income taxes, net of refunds	$ 187.4	$ 77.2	$ 96.3

The accompanying notes are an integral part of the consolidated financial statements.

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to "we," "our," "us" and "the Company" refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — MERGER AGREEMENT

On February 4, 2007, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Panthera Partners, LLC, a Delaware limited liability company ("Panthera Partners"), Panthera Holdco Corp., a Delaware corporation and a wholly-owned subsidiary of Panthera Partners ("Panthera Holdco," and together with Panthera Partners, "Parent"), and Panthera Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of Panthera Holdco ("Merger Sub"). Under the terms of the Merger Agreement, Merger Sub will be merged with and into the Company, with the Company continuing as the surviving corporation and a wholly-owned subsidiary of Parent (the "Merger"). Parent is owned by private investment funds affiliated with CCMP Capital Advisors, LLC and Goldman Sachs & Co. Our Board of Directors approved the Merger Agreement on the unanimous recommendation of a Special Committee comprised entirely of disinterested directors (the "Special Committee").

At the effective time of the Merger, each outstanding share of our common stock, other than shares owned by us, Parent, any stockholders who are entitled to and who properly exercise appraisal rights under Delaware law or any stockholders who enter into agreements with Parent to have their shares convert into equity of the surviving corporation, will be cancelled and converted into the right to receive $50.25 in cash, without interest.

We have made customary representations, warranties and covenants in the Merger Agreement. The Merger Agreement contains a "go shop" provision pursuant to which we have the right to solicit and engage in discussions and negotiations with respect to competing acquisition proposals through March 16, 2007. In accordance with the Merger Agreement, our Board of Directors, through the Special Committee and with the assistance of its independent advisors, intends to solicit superior proposals during this period. There can be no assurance that the solicitation of superior proposals will result in an alternative transaction. During the go shop period, Parent does not have a contractual right to be advised of or match the terms of any superior proposal. After March 16, 2007, we may continue discussions with any "Excluded Party", defined as a party that submits a bona fide acquisition proposal during the go shop period or with whom we are having ongoing discussions or negotiations as of the end of the go shop period regarding a bona fide acquisition proposal. No later than March 19, 2007, we are required to provide the identity of the Excluded Parties to Parent's outside counsel that have entered into a customary non-disclosure agreement with the Company not to disclose such identity to Parent or its affiliates.

Except with respect to Excluded Parties, after March 16, 2007, we are subject to a "no shop" restriction on our ability to solicit third party proposals, provide information and engage in discussions and negotiations with third parties. The no shop provision is subject to a "fiduciary out" provision that allows us to provide information and participate in discussions and negotiations with respect to third party acquisition proposals submitted after March 16, 2007 that the Board of Directors (following the recommendation of the Special Committee) believes in good faith to be bona fide and determines in good faith, after consultation with its financial advisors and outside counsel, constitute or could reasonably be expected to result in a "superior proposal," as defined in the Merger Agreement.

We may terminate the Merger Agreement under certain circumstances, including if our Board of Directors (following the recommendation of the Special Committee) determines in good faith that it has received a superior proposal and that failure to terminate the Merger Agreement could violate its fiduciary duties, and otherwise complies with certain terms of the Merger Agreement. In connection with such termination, we must pay a fee of $120 million to Parent, unless such termination is in connection with a superior proposal submitted by an Excluded Party, in which case we must pay a fee of $20 million to Parent and reimburse Parent for up to $20 million in out-of-pocket expenses. In certain other circumstances, the

Merger Agreement provides for Parent or us to pay to the other party a fee of $120 million upon termination of the Merger Agreement.

Parent has obtained equity and debt financing commitments for the transactions contemplated by the Merger Agreement, the aggregate proceeds of which will be sufficient for Parent to pay the aggregate Merger consideration, including any contemplated refinancing of debt and all related fees and expenses. Consummation of the Merger is not subject to a financing condition, but is subject to various other conditions, including approval of the Merger by our stockholders, expiration or termination of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, the receipt of other required regulatory approvals and other customary closing conditions. The parties currently expect to close the transaction during the second quarter of 2007. Where this Annual Report on Form 10-K discusses our future plans, strategies or activities, such discussion does not give effect to the proposed Merger.

NOTE 2 — ACCOUNTING POLICIES

Reporting Entity

Triad Hospitals, Inc. is one of the largest publicly owned hospital companies in the United States and provides healthcare services through hospitals and ambulatory surgery centers that we own and operate in small cities and selected urban markets primarily in the southern, midwestern and western United States. Our domestic hospital facilities include 53 general acute care hospitals and 13 ambulatory surgery centers located in the states of Alabama, Alaska, Arizona, Arkansas, Georgia, Indiana, Louisiana, Mississippi, Nevada, New Mexico, Ohio, Oklahoma, Oregon, South Carolina, Tennessee, Texas and West Virginia. We have one general acute care hospital located in Dublin, Ireland. Included among our domestic hospital facilities is one hospital operated through a 50/50 joint venture that is not consolidated for financial reporting purposes and one hospital that is under construction. We are also a minority investor in three joint ventures that own seven general acute care hospitals in Georgia and Nevada. Through our wholly-owned subsidiary, Quorum Health Resources, LLC, or QHR, we also provide management and consulting services to independent general acute care hospitals located throughout the United States.

Principles of Consolidation

The consolidated financial statements include our accounts and all affiliated subsidiaries and entities that we control through our direct or indirect ownership of a majority voting interest. All material intercompany transactions have been eliminated. Investments in entities which we do not control, but in which we have a substantial ownership interest and can exercise significant influence, are accounted for using the equity method.

Use of Estimates

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

Revenues

Our healthcare facilities have entered into agreements with third-party payers, including government programs and managed care health plans, under which the facilities are paid based upon several methodologies including established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates or discounts from established charges. Revenues are recorded at estimated net amounts due from patients, third-party payers and others for healthcare services provided. We have multiple patient accounting systems and, therefore, estimates for contractual allowances are calculated both systematically and manually, depending on the type of payer involved and the patient accounting system used by each hospital. In certain systems, the contractual payment terms are preloaded into the system and the system calculates the expected reimbursement amounts. In other systems, the contractual adjustments are determined manually using historical collections on each type of payer. Even for systems that record the expected reimbursement amount, there are still manual estimates based upon historical collections recorded for payers that are not significant or do not have specific contractual terms. All contractual adjustments, regardless of type of payer or method of calculation, are reviewed and compared to actual payment experience. Changes in estimates of contractual allowances for non-government payers have not historically been significant.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex, subject to interpretation and are routinely modified for provider reimbursement. All hospitals participating in the Medicare and Medicaid programs are required to meet certain financial reporting requirements. Federal regulations require submission of annual cost reports covering medical costs and expenses associated with the services provided by each hospital to program beneficiaries. Our facilities have cost reporting year ends throughout our fiscal year. Settlements under reimbursement agreements with governmental payers are estimated and recorded in the period the related services are rendered and are adjusted in future periods as adjustments become known or as the service years are no longer subject to audit, review or investigation. Annual cost reports required under the Medicare and Medicaid programs are subject to routine audits, which may result in adjustments to the amounts ultimately determined to be due to us under these reimbursement programs. These audits often require several years to reach the final determination of amounts earned under the programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. We had $4.0 million, $10.9 million and $2.9 million of net favorable governmental cost report settlements for the years ended December 31, 2006, 2005 and 2004, respectively. The estimated net cost report settlements as of December 31, 2006 and 2005 were receivables of approximately $34.2 million and $15.0 million, respectively, which are included in accounts receivable in the accompanying consolidated balance sheets.

Beginning in the fourth quarter of 2004, we implemented a self-pay discount program that offers discounts to uninsured patients based on personal financial criteria and means testing. The amount of the discount varies based on each patient's financial condition. This self-pay discount program reduced revenue by approximately $92.7 million, $85.7 million and $9.7 million in 2006, 2005 and 2004, respectively, which we believe resulted in a similar reduction to the provision for doubtful accounts.

We implemented an additional component to our self-pay discount program during the second quarter of 2005. This additional component offers a discount for all uninsured patients based on the lowest managed care discount in each hospital location. This component of the self-pay discount program reduced revenues by approximately $97.6 million and $61.9 million in 2006 and 2005, respectively, which we believe resulted in a similar reduction to the provision for doubtful accounts.

Various state regulations require us to provide certain levels of charity care, which is not recorded as revenue. Our charity care policies related to these requirements vary by facility. The discounts related to these charity care requirements are not included in our self-pay discount programs.

Cash and Cash Equivalents

Cash equivalents consist of all investments with an original maturity of three months or less.

Accounts Receivable

Accounts receivable are recorded at the estimated net realizable amounts from Federal and state agencies (under the Medicare, Medicaid and TRICARE programs), managed care health plans, commercial insurance companies, employers and patients. The largest concentration of our patient accounts receivable is in uninsured accounts. These include both amounts due from fully uninsured patients and co-payments and deductibles for which insured patients are responsible. Each patient's insurance coverage is verified as early as possible before a scheduled admission or procedure, including eligibility, benefits and authorization/pre-certification requirements, for all scheduled accounts so that patients can be notified of their estimated amounts due. Insurance coverage is verified within 24 hours for all urgent and direct admissions. Our policy is to write off accounts after all collection efforts have failed, typically no longer than one year after date of discharge. Approximately 42.3% and 39.5% of our accounts receivable at December 31, 2006 and 2005, respectively, were uninsured accounts. We are subject to significant credit risk if these payers' ability to pay deteriorates.

We maintain allowances for doubtful accounts for estimated losses resulting from payers' inability to make payments on accounts. We estimate our allowance for doubtful accounts by applying historical uninsured collection rates to current uninsured receivables. We have multiple patient accounting systems, which could increase the time needed to analyze historical uninsured collection rates. We augment our estimate with other analytical methods such as changes in the level of uninsured receivables, accounts receivable days, cash collections and accounts receivable agings. We recorded an allowance for doubtful accounts of approximately 72.2% and 62.1% of discounted billed uninsured receivables at December 31, 2006 and 2005, respectively.

Prior to the fourth quarter of 2005, we estimated our allowance for doubtful accounts using historical net write-offs of uncollectible accounts. We analyzed the ultimate collectibility of our accounts receivable after one year, using a regression analysis of the historical net write-offs to determine the amount of those accounts receivable that were ultimately not collected. The results of this analysis were then applied to the current accounts receivable to determine the allowance necessary for that period. The impact of our self-pay discounts was incorporated into the historical net write-offs and accounts receivable. This process, or "AR lookback", is performed each quarter. The AR lookback was augmented by the analytical methods discussed above. Our self-pay discount programs, which reduced the amount of receivables recorded, distorted the results of the AR lookback leading management to rely on the procedures discussed above. Although the AR lookback is not currently used as the primary estimation tool, we continue to use it as a part of the estimation process. We will continue to perform the AR lookback process quarterly, but management anticipates it will be another 6 to 12 months before the impact of the self-pay discounts will be fully reflected in the historical write-offs. Once this happens, we anticipate using the AR lookback as the primary estimation tool for the allowance for doubtful accounts.

In 2006, after determining that uninsured collection rates had decreased substantially and reviewing the analytical methods discussed above, management revised its estimate of uncollectible accounts which increased the allowance to approximately 72.2% of discounted uninsured receivables from 62.1%. This resulted in an increase to the provision for doubtful accounts of approximately $44.4 million and a reduction to income from continuing operations of approximately $28.0 million, or $0.32 per diluted share, for 2006.

Over half of our facilities are located in the states of Alabama, Arkansas, Indiana, and Texas. We do not believe that there are any other significant concentrations of revenues from any particular geographic area that would subject us to any significant credit risks in the collection of our accounts receivable.

Inventories

Inventories of supplies are stated at the lower of cost (first-in, first-out) or market.

Physician Income Guarantees

We have entered into physician recruiting agreements under which we supplement physician income to a minimum amount over a period of time, typically one year, while the physicians establish themselves in the community. As part of the agreements, the physicians are required to stay in the community for a period of time after the payments have ended, typically three years, or the payments are required to be returned to us. The payments under these agreements are forgiven ratably if the physicians stay in the community through the end of the agreement. We adopted Financial Accounting Standards Board Staff Position No. FIN 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners", or FIN 45-3, on January 1, 2006. FIN 45-3 requires that a liability for the estimated fair value of minimum revenue guarantees be recorded on new agreements entered into on or after January 1, 2006 and requires disclosure of the maximum amount that could be paid on all minimum revenue guarantees. For agreements entered into prior to the adoption of FIN 45-3, we recorded the payments to the physicians as an other asset and amortize the asset over the forgiveness period. As of December 31, 2006 and 2005, the unamortized portion of these physician income guarantees was $67.2 million and $63.1 million, respectively. For agreements entered into after the adoption of FIN 45-3, we record an asset and liability for the estimated fair value of the minimum revenue guarantees and amortize the asset from the beginning of the guarantee payment period through the end of the agreement. At December 31, 2006, the unamortized part of these physician income guarantees was $21.5 million.

Property, Equipment, and Other Amortizable Intangible Assets

Property and equipment are stated at the lower of cost or market. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase capacities or extend useful lives are capitalized.

We capitalize costs associated with developing computer software for internal use under the provisions of Statement of Position 98-1 "Accounting for the Costs of Computer Software Developed for Internal Use", or SOP 98-1. Under SOP 98-1, both direct internal and external costs incurred during the application development stage, excluding training costs, are capitalized.

Depreciation expense, computed using the straight-line method, was $223.2 million, $199.6 million and $172.3 million for the years ended December 31, 2006, 2005, and 2004, respectively. Buildings and improvements are depreciated over estimated useful lives ranging from 10 to 40 years. Equipment is depreciated over estimated useful lives ranging from 3 to 10 years.

Other amortizable intangible assets are comprised of acquired management contracts which are amortized using the straight-line method over a period of 15 years, acquired employment contracts which are amortized using the straight-line method over a period of two years and non-compete agreements which are amortized based on the terms of the respective contracts.

We have asset retirement obligations for the removal of asbestos at several of our facilities. These obligations are conditional, based on a portion of the facility undergoing major renovations. We have recognized liabilities for this obligation when the fair value can be reasonably estimated, which typically is when a settlement date of the obligation can be determined. The amounts of these liabilities are not significant. For the remainder of these obligations, the fair value cannot be reasonably estimated because there is an indeterminate settlement date of the liability.

We evaluate the carrying value of our property, equipment and amortizable intangible assets under the provisions of Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" or SFAS 144. Under SFAS 144, when events, circumstances and operating results indicate that the carrying value of certain property, equipment, and other amortizable intangible assets to be held and used might be impaired, we prepare projections of the probability-weighted undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the projections indicate that the recorded amounts are not expected to be recoverable, such amounts are reduced to estimated fair value. The fair value of assets held for sale is determined using estimated selling values. Indicators of potential impairment are typically beyond the control of management. If the probability-weighted cash flows become less favorable than those projected by management, impairments may be required. We recorded an impairment related to assets held for sale in 2005 (see NOTE 5).

Goodwill and Other Non-Amortizable Intangible Assets

Goodwill is the excess of the purchase price in an acquisition over the fair value of identifiable net assets acquired. We account for goodwill and other non-amortizable intangible assets under the provisions of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets", or SFAS 142. Under SFAS 142, goodwill and intangible assets with indefinite lives are not amortized but reviewed for impairment annually during the fourth quarter, or more frequently if certain indicators arise. Goodwill is reviewed at the reporting unit level, which is defined in SFAS 142 as an operating segment or one level below an operating segment. We have determined that the reporting unit for our owned operations segment is at the division level, which is one level below the segment. We determine the fair value of the reporting units using discounted future cash flows. If the fair value of the reporting unit is less than the carrying value, an indication of impairment exists. The amount of the impairment would be determined by estimating the fair values of the tangible and intangible assets and liabilities, with the remaining fair value assigned to goodwill. The amount of impairment would be the difference between the carrying amount of the goodwill and the fair value of goodwill. No impairment charges were recorded during the years ended December 31, 2006, 2005 and 2004 under the provisions of SFAS 142.

Income Taxes

We account for income taxes under the provisions of Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes", or SFAS 109. Under SFAS 109, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse.

Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. Income tax provision consists of our current provision for Federal and state income taxes and the change in our deferred income tax assets and liabilities. While we have considered several items including ongoing prudent and feasible tax planning strategies in assessing the need for valuation allowances, in the event we were to determine that the realization of our deferred tax asset in the future is different than our net recorded amount, an adjustment to the income tax provision would be necessary.

Despite our belief that our tax return positions are accurate and supportable, we recognize that certain tax benefits claimed may be subject to challenge and may not be upheld under tax audit. To reflect the possibility that certain tax benefits may not be sustained, we establish tax reserves based on management's judgment and adjust the tax reserves as required in light of new or changing facts and circumstances, such as the progress of a tax audit. Generally, the establishment of tax reserves increases the income tax provision in the reporting period in which such tax reserves are established. Any unfavorable adjustments to the tax reserves increase the income tax provision in that reporting period and any favorable adjustments to the tax reserves decrease the income tax provision in that reporting period. We established a tax reserve through goodwill from the purchase accounting entries for the Quorum acquisition. Any adjustment to this tax reserve as a result of a final settlement of the tax position would increase or decrease the value of the acquired goodwill instead of the income tax provision.

Self-Insured Liability Risks

We maintain professional malpractice liability insurance and general liability insurance in amounts which we believe to be sufficient for our operations, although it is possible that some claims may exceed the scope of the coverage in effect. Substantially all losses in periods prior to the spin-off are insured through a wholly-owned insurance subsidiary of HCA, Inc., or HCA, and excess loss policies maintained by HCA. HCA has agreed to indemnify us in respect of claims covered by such insurance policies arising prior to the spin-off. After the spin-off, we obtained insurance coverage on a claims incurred basis from HCA's wholly-owned insurance subsidiary with excess coverage obtained from other carriers which is subject to certain deductibles which we consider to be reasonable. The cost of general and professional liability coverage is based on insurance premiums paid and actuarially determined estimates for deductibles. The cost for the years ended December 31, 2006, 2005, and 2004 was approximately $72.3 million, $76.2 million and $90.1 million, respectively. Estimated liabilities for general and professional liability risks are actuarially determined and discounted using an interest rate of 5.5%. The estimated liability was $160.5 million and $144.8 million at December 31, 2006 and 2005, respectively. At December 31, 2006 and 2005, $37.0 million and $21.2 million, respectively, was recorded in other current liabilities and $123.5 million and $123.6 million, respectively, was recorded in other liabilities in the consolidated balance sheets.

In the fourth quarter of 2006, our semi-annual general and professional liability actuarial report showed approximately a $25 million reduction to the estimated liabilities. The reduction was from reduced claim payments and claim severity. We also had an increase in our estimated liabilities for general and professional liability insurance of $10.3 million in the second quarter of 2006 due to a reduction of the discount rate to 5.5% from 6.0% and changes in actuarial assumptions to accelerate claim payment patterns. These events resulted in a net reduction to our estimated liabilities of $14.7 million and increased income from continuing operations and net income by approximately $9.3 million, or $0.11 per diluted share.

For periods after the spin-off, we instituted our own self-insured programs for workers' compensation and health insurance. Prior to the spin-off, we participated in self-insured programs for workers' compensation and health insurance administered by HCA. HCA retained sole responsibility for all workers' compensation and health claims incurred prior to the spin-off. The cost for these programs is based upon claims paid, plus an actuarially determined amount for claims incurred but not reported. Estimated liabilities for workers' compensation were $24.2 million and $27.6 million at December 31, 2006 and 2005, respectively. Estimated liabilities for health claim liability risk were $18.7 million and $20.4 million at December 31, 2006 and 2005, respectively.

There are many factors that are used in determining the estimates, including amount and timing of historical payments, severity of individual cases, anticipated volume of services provided and discount rates for future cash flows. Ultimate actual payments for workers' compensation and general and professional liability risks may not become known for several years after incurrence. Any factors changing the underlying data used in determining these estimates could result in adjustments to the liability.

Share-Based Compensation Expense

We account for our share-based compensation expense under the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004) "Share-Based Payment", or SFAS 123R (see NOTE 12). Under this method, share-based compensation expense is recognized beginning January 1, 2006 for all share-based payments granted based on the grant date fair value, using estimated forfeitures. We adopted SFAS 123R effective January 1, 2006.

Reimbursable Expenses

Our wholly-owned subsidiary, QHR, recognizes revenue based on a contractually determined rate as services are performed, plus direct costs associated with the contract. The direct costs relate primarily to salaries and benefits of QHR employees who serve as executives at hospitals managed by QHR. The salaries and benefits of these employees are legal obligations of and are paid by QHR, and are reimbursed by the managed hospitals. The direct costs are recorded as revenues and reimbursable expenses in the consolidated statements of operations.

Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107 "Disclosure About Fair Value of Financial Instruments" requires certain disclosures regarding the fair value of financial instruments. Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are reflected in the consolidated financial statements at fair value because of the short-term maturity of these instruments. The fair value of long-term debt was determined by using quoted market prices, when available, or discounted cash flows to calculate these fair values.

Derivative Financial Instruments

We account for our derivatives under Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" or SFAS 133. SFAS 133 requires that all derivative financial instruments that qualify for hedge accounting be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. Changes in fair value of derivative financial instruments are either recognized periodically in income or shareholders' equity (as a component of comprehensive income), depending on whether the derivative is being used to hedge changes in fair value or cash flows. Our policy is to not hold or issue derivatives for trading purposes and to avoid derivatives with leverage features.

Business Combinations

We account for acquisitions under Statement of Financial Accounting Standards No. 141 "Business Combinations", or SFAS 141. SFAS 141 requires that all business combinations be accounted for under the purchase method of accounting, whereby all assets acquired, including identifiable intangibles and goodwill, and liabilities assumed are recorded at fair value. Results of operations for entities acquired are included in the consolidated results of operations beginning on the date of acquisition.

Discontinued Operations

We account for discontinued operations under SFAS 144. SFAS 144 requires that a component of an entity that has been disposed of or is classified as held for sale after January 1, 2002 and has operations and cash flows that can be clearly distinguished from the rest of the entity be reported as discontinued operations. In the period that a component of an entity has been disposed of or classified as held for sale, the results of operations for current and prior periods are reclassified in a single caption titled discontinued operations.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes", or FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS 109. FIN 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effect of applying the provisions of FIN 48 would be reported as an adjustment to the opening balance of retained earnings in the year of adoption. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. We adopted FIN 48 on January 1, 2007, and anticipate that we will reclassify amounts recorded in our deferred tax liabilities for uncertain tax positions to other liabilities upon adoption. We currently do not anticipate any material adjustments to the opening balance of retained earnings. FIN 48 also requires additional disclosures with respect to reserves related to tax uncertainties.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157 "Fair Value Measurements", or SFAS 157, which is effective for fiscal years beginning after November 15, 2007, with early adoption encouraged. This statement provides a single definition of fair value, establishes a framework for measuring fair value, and expanded disclosures concerning fair value measurements. We do not anticipate a material impact on our results of operations or financial position from the adoption of SFAS 157.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements", or SAB 108, which is effective for fiscal years ending after November 15, 2006. SAB 108 provides guidance on the consideration of the effects of prior year immaterial misstatements in quantifying current year misstatements for the purpose of a materiality assessment on both the balance sheet and income statement. SAB 108 requires restatement of prior year financial statements for current year misstatements even if the revisions are immaterial to those prior years, if the correction would be material to the current year. SAB 108 allows for the cumulative effect of the initial application to be made to beginning retained earnings. We did not have a material impact on our results of operations or financial position from the adoption of SAB 108.

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities", or SFAS 159, which is effective for financial statements beginning after November 15, 2007, with early adoption permitted. The statement permits entities to choose to measure many financial instruments and certain other items at fair value. The unrealized gains and losses on items for which the fair value option has been elected would be reported in earnings. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. We have not evaluated all of the provisions of SFAS 159, but we do not anticipate a material impact on our results of operations or financial position from the adoption of SFAS 159.

NOTE 3 — ACQUISITIONS

Effective November 1, 2006, an affiliate of ours acquired a hospital in Augusta, Georgia and immediately sold ownership interests in the acquiring entity to members of the medical staff of the hospital. The purchase price of the hospital was approximately $33.2 million including working capital. Our affiliate owns approximately a 65% interest in the venture and the physician owners own approximately a 35% interest in the venture. We received approximately $10 million from the physician owners in the venture.

Effective February 1, 2006, we closed under a definitive agreement to form a venture with a non-profit entity in Clarksville, Tennessee. We contributed approximately $25.6 million in cash for an 80% interest in the venture and the non-profit contributed the hospital's current operations, including real estate and equipment, and received a 20% interest in the venture. The venture has begun building a replacement facility for which we would contribute an additional $125 million.

Effective February 1, 2006, we closed under a definitive agreement to form a venture with a non-profit entity in Massillon, Ohio. We contributed our current hospital in Massillon and approximately $11.4 million in cash for approximately a 59% interest in the venture and the non-profit entity contributed its hospital for approximately a 41% interest in the venture. In the second quarter of 2006, the non-profit entity exercised its option to sell a portion of its interest in the venture to us. We paid approximately $12.2 million and obtained an additional interest in the venture of approximately 21%, increasing our total interest to approximately 80%.

During 2006, we acquired certain non-hospital healthcare entities for approximately $42.3 million.

The operations of the acquired entities are included in our operations from the effective dates of the transactions.

We have obtained appraisals and valuations on the assets and liabilities acquired and, based on these valuations, intangible assets of $13.6 million were recorded, of which $7.2 million was assigned to trade names that are not subject to amortization and $6.4 million was assigned to non-compete agreements that are being amortized over a five-year period. The acquired goodwill, based on the appraisals, totaled $67.0 million and has been assigned to the owned operations segment. Approximately $30.2 million of the acquired goodwill is anticipated to be deductible for tax purposes.

In 2006, we obtained an appraisal for a joint venture formed in the fourth quarter of 2005 in Birmingham, Alabama. Acquired intangible assets of $2.4 million were recorded in 2006, which were assigned to non-compete agreements that are being amortized over a five-year period. The acquired goodwill, which was assigned to the owned operations segment, was reduced in 2006 by $10.0 million.

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to “we,” “our,” “us” and “the Company” refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

NOTE 4 — GOODWILL AND INTANGIBLE ASSETS

The goodwill allocated to our reportable segments is as follows (in millions):

	Owned Operations	Management Services	Corporate and Other	Total
Balance as of January 1, 2005	$ 1,140.6	$ 58.8	$ —	$ 1,199.4
Goodwill acquired	106.6	—	—	106.6
Reduction to goodwill from minority interests acquired	(3.8)	—	—	(3.8)
Goodwill written off related to sales	(0.6)	—	—	(0.6)
Balance as of December 31, 2005	1,242.8	58.8	—	1,301.6
Goodwill acquired	67.0	—	—	67.0
Increase to goodwill from minority interests acquired	1.6	—	—	1.6
Purchase price adjustments for prior year acquisitions	(10.0)	—	—	(10.0)
Goodwill written off related to sales	(0.5)	—	—	(0.5)
Balance as of December 31, 2006	$ 1,300.9	$ 58.8	$ —	$ 1,359.7

Intangible assets subject to amortization relate primarily to management contracts acquired in the management services segment. Amortization expense of intangible assets that still require amortization under SFAS 142 was $6.6 million, $6.3 million and $6.3 million for the years ended December 31, 2006, 2005, and 2004, respectively.

Estimated amortization expense relating to these intangible assets over the next five years is as follows (in millions):

2007	$7.4
2008	$7.3
2009	$7.2
2010	$6.9
2011	$6.4

The gross carrying amount and accumulated amortization of amortizable intangible assets at December 31, 2006 and 2005 are as follows (in millions):

	2006		2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Management contracts	$ 79.0	$ (29.8)	$ 79.0	$ (24.6)
Other	11.7	(2.8)	2.9	(1.4)
Total	$ 90.7	$ (32.6)	$ 81.9	$ (26.0)

At December 31, 2006 and 2005 the carrying amount of intangible assets assigned to trade names that are not subject to amortization was $23.0 million and $15.8 million, respectively.

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to "we," "our," "us" and "the Company" refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

NOTE 5 — DISCONTINUED OPERATIONS

Effective January 1, 2006, we closed on a definitive agreement to sell our hospitals in Wharton, Texas, Pampa, Texas and Hope, Arkansas for $75 million plus $15.1 million for working capital. These facilities were reclassified to discontinued operations in the fourth quarter of 2005. We recognized a pre-tax gain on the sale in discontinued operations of $26.9 million. These facilities were a component of the owned operations segment.

On November 1, 2005, we closed on an agreement to sell our hospital in Searcy, Arkansas. At the time of disposal, we recorded a contingent liability relating to the sale of the facility. Management determined that the contingency was resolved and reversed the liability in the second quarter of 2006. A pre-tax gain of approximately $0.3 million was recognized in discontinued operations.

We closed under an agreement in May 2004 to sell certain assets related to our leased acute care hospital in Terrell, Texas. At the time of the disposal, we recorded $3.4 million in notes receivable. During the third quarter of 2006, the borrower defaulted on the first payment due under the notes. A reserve on the notes for the amount in excess of the estimated value of the collateral of approximately $1.4 million was recorded in discontinued operations.

The assets and liabilities of entities included in discontinued operations are presented in the consolidated balance sheets under the captions "Discontinued operations assets" and "Discontinued operations liabilities". At December 31, 2006, all assets and liabilities included in discontinued operations were sold. The carrying amounts of the major classes of these assets and liabilities are as follows (in millions):

	December 31, 2005
Assets	
Accounts receivable, net	$ 17.6
Inventories	2.2
Other current assets	3.9
Property and equipment, net	40.5
Goodwill	3.3
Other assets	0.1
Total discontinued operations assets	$ 67.6
Liabilities	
Accounts payable	$ 1.3
Accrued salaries	1.8
Total discontinued operations liabilities	$ 3.1

Revenues and income (loss) for the entities are included in the consolidated statements of operations as "Income (loss) from discontinued operations, net of tax". The amounts for the years ended December 31 were as follows (in millions):

	2006	2005	2004
Revenues	$ —	$169.3	$315.5
Pre-tax income (loss) from operations	(1.4)	(5.7)	5.8
Income tax (provision) benefit	0.5	1.9	(2.1)
	(0.9)	(3.8)	3.7
Impairment charge, net of tax benefit of $2.8 million for the year ended December 31, 2005	—	(4.7)	—
Gain on disposal, net of tax provision of $10.5 million, $1.3 million, and $39.9 million for the years ended December 31, 2006, 2005 and 2004, respectively	15.3	5.1	55.3
	$14.4	$ (3.4)	$ 59.0

NOTE 6 — INCOME TAXES

The income tax (provision) benefit from continuing operations for the years ended December 31 consists of the following (dollars in millions):

	2006	2005	2004
Current:			
Federal	$ (126.8)	$ (118.0)	$ (70.1)
State	(11.4)	(11.7)	(8.4)
Deferred:			
Federal	5.2	(11.2)	(3.3)
State	0.5	(1.0)	—
	$ (132.5)	$ (141.9)	$ (81.8)

We also had tax (provision) benefit from discontinued operations of $(10.0) million, $3.4 million and $(42.0) million for the years ended December 31, 2006, 2005 and 2004, respectively.

A reconciliation of the Federal statutory rate to the effective income tax rate from continuing operations follows:

	2006	2005	2004
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of Federal income tax benefit	2.0	2.0	2.0
State tax rate change	—	—	(0.7)
Valuation allowance	1.0	—	—
Non-deductible ESOP expense	1.0	1.0	1.2
Other items, net	(0.1)	0.2	0.8
Effective income tax rate	38.9%	38.2%	38.3%

During the third quarter of 2004, we had a reduction of our marginal tax rate from 37.5% to 37.0% from state tax rate changes. We recorded a reduction to our income tax provision of approximately $1.5 million relating to an adjustment of our deferred tax assets and liabilities from the change in the marginal tax rate.

A summary of the items comprising the deferred tax assets and liabilities at December 31 follows (in millions):

	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Depreciation and fixed asset basis differences	$ —	$ 172.2	$ —	$ 169.8
Accounts and other receivables	26.0	—	19.4	—
Foreign and state net operating loss carryforwards	16.3	—	14.3	—
Professional liability risks	59.7	—	55.3	—
Compensation reserves	43.2	—	26.3	—
Amortization and intangible asset basis differences	—	109.5	—	103.1
Investment basis difference	—	11.7	—	9.8
Prepaid expenses	—	6.3	—	5.7
Other	2.7	—	4.0	—
	147.9	299.7	119.3	288.4
Valuation allowances	(3.3)	—	(1.0)	—
	$144.6	$ 299.7	$118.3	$ 288.4

As part of the spin-off, we and HCA entered into a tax sharing and indemnification agreement (see NOTE 15). The tax sharing and indemnification agreement will not have an impact on the realization of our deferred tax assets or the payment of our deferred tax liabilities except to the extent that the temporary differences giving rise to such deferred tax assets and liabilities as of the spin-off are adjusted as a result of final tax settlements after the spin-off. In the event of such adjustments, the tax sharing and indemnification agreement will provide for certain payments between HCA and us as appropriate.

Deferred income taxes of $38.4 million and $31.8 million at December 31, 2006 and 2005, respectively, are included in current assets. Noncurrent deferred income tax liabilities totaled $193.5 million and $201.9 million at December 31, 2006 and 2005, respectively. Current and noncurrent deferred taxes totaled $155.1 million and $170.1 million net deferred tax liability at December 31, 2006 and 2005, respectively.

At December 31, 2006, state net operating loss carryforwards (expiring in years 2007 through 2025) available to offset future taxable state income approximated $475.7 million, representing approximately $15.5 million in deferred tax benefits. Utilization of net operating loss carryforwards in any one year may be limited and, in certain cases, result in a reduction of deferred tax assets. Based on available evidence, it is more likely than not that some portion of the state net operating loss carryforwards will not be realized, therefore, a valuation allowance of $2.5 and $1.0 million has been recorded as of December 31, 2006 and 2005, respectively.

At December 31, 2006, foreign net operating loss carryforwards (with no expiration date) available to offset future taxable income approximated $6.5 million representing approximately $0.8 million in deferred tax benefits. Based on available evidence, it is more likely than not that the foreign net operating loss carryforwards will not be realized, therefore, a valuation allowance of $0.8 million has been recorded as of December 31, 2006.

NOTE 7 — LONG-TERM DEBT

Components of long-term debt at December 31 (in millions):

	Carrying Amount		Fair Value	
	2006	2005	2006	2005
Revolving Credit Line	$ —	$ —	$ —	$ —
Term Loan A	493.8	500.0	493.8	500.0
7% Senior Notes	600.0	600.0	601.5	610.5
7% Senior Subordinated Notes	600.0	600.0	605.3	598.5
Other	11.6	3.5	11.0	3.5
	1,705.4	1,703.5	$ 1,711.6	$ 1,712.5
Less current portion	21.3	7.7		
	$ 1,684.1	$ 1,695.8		

The Term Loan A presently bears interest at LIBOR plus 1.00% (6.35% at December 31, 2006) with principal amounts due through 2011, the 7% senior notes principal amounts are due in 2012 and the 7% senior subordinated notes principal amounts are due in 2013. The senior notes are callable, at our option, in May 2008 and the senior subordinated notes are callable, at our option, in November 2008 and, in both cases, are callable earlier at our option by paying a make-whole premium. At December 31, 2006, Triad had a $600.0 million line of credit which bears interest at LIBOR plus 1.00%. No amounts were outstanding under the revolving credit line at December 31, 2006. The revolving credit line matures in 2007. We had $16.1 million of letters of credit outstanding at December 31, 2006, which reduce the amount available under the revolving credit line. The LIBOR spread on the revolving credit line, including letters of credit outstanding under the revolving credit line, and our Term Loan A may increase or decrease depending upon our total leverage. The interest rate applicable to the credit facilities ranges from LIBOR plus 0.875% to LIBOR plus 1.75%, based on our total leverage ratio.

Our term loans and revolving lines of credit are collateralized by a pledge of substantially all of our assets other than real estate associated with the former Quorum facilities. The debt agreements require that we comply with various financial ratios and tests and have restrictions on, among other things, new indebtedness, asset sales and use of proceeds therefrom, stock repurchases and dividends. The debt agreements require, among other things, that our total leverage ratio not exceed 4.0x as of December 31, 2006. Our total leverage ratio at December 31, 2006 was approximately 2.27x. The indentures governing our other long-term debt also contain covenants restricting the incurrence of indebtedness, investments, dividends, asset sales and the incurrence of liens, among other things. There are no maintenance covenants under the indentures. Our debt agreements and indentures contain change of control provisions. A change in control constitutes an event of default under our credit facility. Under our indentures, if a change in control occurs, each holder of our notes can require us to repurchase their notes at 101% of the principal amount thereof, plus accrued and unpaid interest to the repurchase date. There are no events of default under our debt agreements or indentures in the event of a downgrade of our debt ratings. We currently are in compliance with all debt agreement covenants and restrictions. If an event of default occurs with respect to our debt agreements, then the balances of the term loan and revolving credit line could become due and payable which could result in other debt obligations also becoming due and payable. Additionally, there would be no availability under the revolving credit line.

We had net debt issue costs of $19.0 million and $22.4 million as of December 31, 2006 and 2005, respectively, recorded in other assets in the consolidated balance sheets. These costs are being amortized using the effective interest method over the lives of the related debt. Accumulated amortization of debt issue costs was $8.5 million and $5.1 million as of December 31, 2006 and 2005, respectively.

We use varying methods and significant assumptions to estimate fair values of long-term debt (see NOTE 2).

A debt maturity schedule is as follows (in millions):

2007	$ 21.3
2008	37.5
2009	44.9
2010	213.5
2011	188.1
Thereafter	1,200.1
	$ 1,705.4

NOTE 8 — EQUITY INVESTMENTS

We own equity interests of 27.5% in Valley Health System LLC and 26.1% in Summerlin Hospital Medical Center LLC. Universal Health Systems has the majority interest in Valley Health System LLC and Summerlin Hospital Medical Center LLC. We own an equity interest of 38.0% in Macon Healthcare LLC. HCA has the majority interest in Macon Healthcare LLC. We also own a 50% interest in MCSA, LLC with our partner, SHARE Foundation, a not-for-profit foundation. We use the equity method of accounting for our investments in these entities. Summarized financial information of these entities is as follows (in millions):

	December 31,	
	2006	2005
Balance Sheet		
Current assets	$202.8	$159.9
Non-current assets	568.9	569.0
	$771.7	$728.9
Current liabilities	$ 72.8	$ 71.5
Non-current liabilities	3.1	3.3
Members' equity	695.8	654.1
	$771.7	$728.9

	For the Years Ended December 31,		
	2006	2005	2004
Income Statement			
Revenues	$ 1,145.8	$ 1,036.4	$906.1
Net income	$ 139.5	$ 108.3	$ 59.0

NOTE 9 — GUARANTEES

We have entered into physician recruiting agreements under which we supplement physician income to a minimum amount over a period of time while the physicians establish themselves in the community (see NOTE 2). Under the provisions of FIN 45-3, we recorded a liability for the fair value of minimum revenue guarantees on new agreements entered into after January 1, 2006. At December 31, 2006, we had liabilities for the minimum revenue guarantees entered into on or after January 1, 2006 of $14.8 million. At December 31, 2006, the maximum amount of all unpaid minimum revenue guarantees, including the minimum revenue guarantees entered into prior to January 1, 2006, was $58.9 million.

We have entered into agreements whereby we have guaranteed certain loans entered into by patients for whom services were performed at our facilities. All uninsured patients are eligible to apply for these loans. These loans are provided by various financial institutions who determine whether the loans are made. The terms of the loans range from 1 to 5 years. We would be obligated to repay the financial institutions if a patient fails to repay his or her loan. We could then pursue collections from the patient. We record a reserve for the estimated defaults on these loans at the historical default rate, which was approximately 30.3% and 29.1% at December 31, 2006 and 2005, respectively. At December 31, 2006 and 2005, the amounts subject to the guarantees were $23.4 million and $23.6 million, respectively. We had accrued liabilities of $7.0 million and $6.8 million at December 31, 2006 and 2005, respectively, for the estimated loan defaults that would be covered under the guarantees.

FASB Interpretation No. 45, "Guarantor's Accounting on Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" requires recognition of a liability for the estimated fair value of guarantee obligations entered into after January 1, 2003 and disclosure of the maximum amount that could be paid under all guarantee obligations. Prior to January 1, 2003, we entered into agreements to guarantee the indebtedness of certain joint ventures that are accounted for by the equity method. The maximum amount of the guarantees entered into prior to January 1, 2003 was $2.0 million at December 31, 2006. Subsequent to January 1, 2003, we entered into agreements to guarantee the indebtedness of joint ventures accounted for by the equity method. A minimal amount was recorded for the fair value of the guarantees. The maximum amount of the guarantees entered into after January 1, 2003 was $1.7 million at December 31, 2006.

NOTE 10 — DERIVATIVE FINANCIAL INSTRUMENTS

We had entered into an interest rate swap agreement, which effectively converted a notional amount of $100 million of floating rate borrowings to fixed rate borrowings. The term of the interest rate swap expired in January 2004. We had also entered into another interest rate swap agreement, which effectively converted an additional notional amount of $100 million of floating rate borrowings to fixed rate borrowings. The term of the interest rate swap expired in June 2005. The change in fair value of the interest rate swaps, net of income tax, was recognized through other comprehensive income.

NOTE 11 — LEASES

We lease real estate properties, equipment and vehicles under cancelable and non-cancelable leases. Rental expense for the years ended December 31, 2006, 2005 and 2004 was $116.8 million, $92.0 million and $78.0 million, respectively. Future minimum operating and capital lease payments are as follows at December 31, 2006 (in millions):

	Operating	Capital
2007	$ 64.3	$ 1.9
2008	55.0	1.4
2009	47.7	1.0
2010	36.5	0.8
2011	26.9	0.5
Thereafter	120.5	—
Total minimum payments	$ 350.9	5.6
Less amounts representing interest		(0.6)
Present value of minimum lease payments		$ 5.0

The following summarizes amounts related to equipment leased by us under capital leases at December 31 (in millions):

	2006	2005
Equipment	$ 7.2	$ 2.0
Accumulated amortization	(1.0)	(0.9)
Net book value	$ 6.2	$ 1.1

NOTE 12 — SHARE-BASED COMPENSATION PLANS

At December 31, 2006, we had share-based compensation plans that, prior to January 1, 2006, were accounted for under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", or APB 25 and related interpretations, as permitted by Statement of Financial Accounting Standards No. 123, or SFAS 123, "Accounting for Stock-Based Compensation". APB 25 used the intrinsic value method to account for options granted to employees. Share-based compensation expense of $1.3 million was recognized in the consolidated statement of operations for restricted stock issued to non-employee members of the Board of Directors and an executive officer during the year ended December 31, 2005. No share-based compensation expense was recognized on options awarded to employees, as all unvested options were granted at exercise prices equal to the market value of the underlying common stock on the date of grant. We recorded $0.7 million in share-based compensation expense during the year ended December 31, 2005, relating to stock options granted to non-employees, deferred stock units, or DSUs, granted to non-employee members of the Board of Directors and shares issued under Triad's Amended and Restated Management Stock Purchase Plan, or MSPP.

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS 123R using the modified prospective transition method. Under this method, share-based compensation expense is recognized beginning January 1, 2006 for all share-based payments granted prior to, but not yet vested at, January 1, 2006 based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and for all share-based payments granted subsequent to January 1, 2006 at the grant date fair value, using estimated forfeitures. Prior periods have not been restated.

The following table illustrates the impact of adopting SFAS 123R on the consolidated statements of operations for the year ended December 31, 2006 (amounts in millions, except per share information):

Income from continuing operations before income tax provision	$(27.7)
Income from continuing operations	$(18.4)
Net income	$(18.4)
Basic income from continuing operations per share	$(0.21)
Basic net income per share	$(0.21)
Diluted income from continuing operations per share	$(0.21)
Diluted net income per share	$(0.21)

Prior to adopting SFAS 123R, we presented all benefits of tax deductions for share-based compensation as operating cash flows in the consolidated statements of cash flows. SFAS 123R requires that the tax benefit in excess of compensation costs be classified as financing cash flows. As a result of adopting SFAS 123R, we reported a reduction of cash flows from operating activities and a corresponding increase to cash flows from financing activities of $1.7 million in the year ended December 31, 2006.

Our Amended and Restated Long-Term Incentive Plan, or LTIP, has 20,500,000 shares of our common stock reserved for issuance. The LTIP provides for grants of stock options, restricted stock and other equity-based awards to our officers, employees and directors. Awards of stock options granted under the LTIP are generally at an exercise price equal to the market value of our common stock at the date of grant, become exercisable over a four-year period and expire 10 years from the date of grant. The fair value of stock options granted under the LTIP is estimated on the date of grant using the Black-Scholes option pricing model. Expected volatility is based on the historical volatility of our common stock. The expected term is based on the historical exercise patterns of our stock options. Awards of restricted stock granted under the LTIP have a fair value equal to the market value of our common stock on the date of grant and generally vest over a four-year period except for awards of restricted stock granted to non-employee directors, which generally vest one year from the date of grant. We recorded $23.2 million in share-based compensation expense in the year ended December 31, 2006, for awards granted under the LTIP.

Our Outside Directors Stock and Incentive Compensation Plan, or Outside Directors Plan, has 750,000 shares of our common stock reserved for issuance. The Outside Directors Plan provides for grants of stock options and DSUs to non-employee members of the Board of Directors. Awards of stock options granted under the Outside Directors Plan are generally at an exercise price equal to the market value of our common stock at the date of grant, become exercisable over a four-year period and expire 10 years from the date of grant. The fair value of stock options granted under the Outside Directors Plan is estimated on the grant date using the Black-Scholes option pricing model. The Outside Directors Plan provides outside directors the option to elect to receive all or a portion (in 25% increments) of their annual retainer (excluding the annual stipend for the committee chairpersons) in DSUs that settle in shares of our common stock at the earlier of the fifth anniversary of the date of grant or the end of the director's service on the Board of Directors, at the director's election. If a director elects to receive DSUs, the number of DSUs granted in payment of all or a portion of the annual retainer is calculated based on the market value of our common stock on the date of grant. We recorded $0.9 million in share-based compensation expense in the year ended December 31, 2006 for awards granted under the Outside Directors Plan.

Our MSPP provides certain members of management an opportunity to purchase restricted shares of our common stock at a discount through payroll deductions over six month intervals. The restricted shares are granted at a 25% discount from the six-month average market price of the common stock on the date of grant. The vesting period is three years from the date of grant, and subject to certain exceptions, an employee forfeits the value of the discount and any appreciation in the stock if employment is terminated during the vesting period. The fair value of shares issued under the MSPP is estimated on the date of grant using the Black-Scholes option pricing model. We recorded $0.2 million in share-based compensation expense in the year ended December 31, 2006, for shares issued under the MSPP.

We have an Employee Stock Purchase Plan, or ESPP, which provides an opportunity to purchase shares of our common stock to all eligible employees at a discount through payroll deductions over six month intervals. The shares are issued at a 15% discount from the lower of the market price of our common stock at the beginning date of the plan period or the market price at the ending date of the plan period. The fair value of shares issued under the ESPP is estimated at the beginning of the plan period using the Black-Scholes option pricing model. We recorded $3.4 million in share-based compensation expense in the year ended December 31, 2006, for shares issued under the ESPP. We issued 392,026 shares under the ESPP during the year ended December 31, 2006.

The following weighted-average assumptions were used in the Black-Scholes option pricing model for stock options granted for all plans during the years ended December 31, 2006, 2005 and 2004.

	2006	2005	2004
Risk free interest rate	4.71%	3.54%	2.90%
Expected life	5 years	5 years	5 years
Expected volatility	20.6%	26.3%	41.5%
Expected dividend yield	—	—	—

The following table illustrates the effect on income from continuing operations, net income and earnings per share if we had applied the fair value recognition provisions of SFAS 123 to our share-based compensation plans prior to adoption of SFAS 123R:

	For the Years Ended December 31,	
	2005	2004
Income from continuing operations, as reported	$229.4	$132.0
Add: Share-based compensation expense recorded	1.3	0.7
Less: Fair value share-based compensation expense	(21.0)	(21.1)
Pro forma	$209.7	$111.6
Net income, as reported	$226.0	$191.0
Add: Share-based compensation expense recorded	1.3	0.7
Less: Fair value share-based compensation expense	(21.0)	(21.1)
Pro forma	$206.3	$170.6

	For the Years Ended December 31, 2005	2004
Basic income per share		
Income from continuing operations, as reported	$ 2.80	$ 1.76
Add: Share-based compensation expense recorded	0.02	0.01
Less: Fair value share-based compensation expense	(0.26)	(0.28)
Pro forma	$ 2.56	$ 1.49
Net income, as reported	$ 2.76	$ 2.54
Add: Share-based compensation expense recorded	0.02	0.01
Less: Fair value share-based compensation expense	(0.26)	(0.28)
Pro forma	$ 2.52	$ 2.27
Diluted income per share		
Income from continuing operations, as reported	$ 2.74	$ 1.72
Add: Share-based compensation expense recorded	0.02	0.01
Less: Fair value share-based compensation expense	(0.20)	(0.25)
Pro forma	$ 2.56	$ 1.48
Net income, as reported	$ 2.70	$ 2.49
Add: Share-based compensation expense recorded	0.02	0.01
Less: Fair value share-based compensation expense	(0.20)	(0.25)
Pro forma	$ 2.52	$ 2.25

A summary of stock option activity under our share-based compensation plans at December 31, 2006 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2006	8,001,692	$ 33.04		
Granted	59,200	$ 38.35		
Exercised	(889,708)	$ 26.57		
Cancelled	(265,714)	$ 38.23		
Outstanding at December 31, 2006	6,905,470	$ 33.81	7.1	$ 56,755,240
Exercisable at December 31, 2006	4,321,007	$ 31.28	6.3	$ 45,919,613

The weighted average grant-date fair value of options granted during the years ended December 31, 2006, 2005 and 2004 was $10.95, $13.08 and $14.24 per option, respectively. The total intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004 was $13.2 million, $64.9 million and $38.5 million, respectively.

A summary of our non-vested shares at December 31, 2006 is presented below:

	Restricted Stock		MSPP Shares		DSUs	
	Shares	Weighted Average Grant-Date Fair Value	Shares	Weighted Average Grant-Date Fair Value	Shares	Weighted Average Grant-Date Fair Value
Non-vested at January 1, 2006	120,000	$ 49.42	85,086	$ 10.68	23,488	$ 33.03
Granted	686,100	$ 40.77	22,505	$ 11.67	6,199	$ 41.12
Vested	(20,000)	$ 49.42	(28,401)	$ 9.01	(6,263)	$ 28.74
Cancelled	(24,750)	$ 40.85	(5,972)	$ 10.73	—	—
Non-vested at December 31, 2006	761,350	$ 41.90	73,218	$ 11.09	23,424	$ 36.31

The total fair value of shares vested during the years ended December 31, 2006, 2005 and 2004 was $26.4 million, $32.3 million and $25.4 million, respectively. On February 8, 2007, we granted 743,756 shares of restricted stock to employees with a fair value on the grant date of $49.61 per share.

At December 31, 2006, there was $43.6 million of total unrecognized share-based compensation expense related to our non-vested share-based compensation plans that is expected to be recognized over a contractual weighted average period of 2.3 years. Any unrecognized share-based compensation expense will generally be accelerated upon a closing under the Merger Agreement (see NOTE 1).

Cash received from option exercises under share-based payment arrangements for the years ended December 31, 2006, 2005 and 2004 was $23.6 million, $87.8 million and $39.7 million, respectively. The actual tax benefit realized for the tax deductions of the share-based payment arrangements for the year ended December 31, 2006, 2005 and 2004 was $5.7 million, $24.2 million and $14.3 million, respectively.

NOTE 13 — RETIREMENT PLANS

We have established an Employee Stock Ownership Plan, or ESOP, for substantially all of our employees. In 1999, the ESOP purchased, at fair market value, 3,000,000 shares of our common stock. The purchase was primarily financed by the ESOP issuing a promissory note to us, which will be repaid annually in equal installments over a 10-year period beginning December 31, 1999. We make contributions to the ESOP which the ESOP uses to repay the loan. Our stock acquired by the ESOP is held in a suspense account and will be allocated to participants at market value from the suspense account as the loan is repaid.

The loan to the ESOP is recorded in unearned ESOP compensation in the consolidated balance sheets. Reductions are made to unearned ESOP compensation as shares are committed to be released to participants at cost. Recognition of ESOP expense is based on the average market price of shares committed to be released to participants. Shares are deemed to be committed to be released ratably during each period as the employees perform services. The difference between average market price and cost of the shares is shown as a change in additional paid-in capital. As the shares are committed to be released, the shares become outstanding for earnings per share calculations. We recognized ESOP expense of $12.5 million, $14.1 million and $10.3 million for the years ended December 31, 2006, 2005 and 2004, respectively, and the unearned ESOP compensation was $6.9 million and $10.4 million at December 31, 2006 and 2005, respectively.

The ESOP shares as of December 31, 2006 were as follows:

Shares released	2,100,000
Shares committed to be released	300,000
Unreleased shares	600,000
Total ESOP shares	3,000,000
Fair value of unreleased shares	$ 25.1 million

We have a defined contribution retirement plan which covers substantially all employees. Benefits are determined primarily as a percentage of a participant's annual income, less contributions to the ESOP. These benefits are vested over specific periods of employee service. We have also instituted a contributory benefit plan which is available to employees who meet certain minimum requirements. The plan requires that we match 50% of a participant's contribution up to certain maximum levels. We recorded expense under these plans of $47.5 million, $43.7 million and $38.1 million for the years ended December 31, 2006, 2005 and 2004, respectively. Contributions to the retirement plan are funded annually. Our contributions to the contributory benefit plan are funded periodically during the year.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)", or SFAS 158, which is effective for fiscal years ending after December 15, 2006. SFAS 158 requires recognition of defined benefit plan funding status, including gains or losses on plan assets, prior service costs and transition assets or obligations, and recognizes changes in the funding status of those plans in the plan sponsors financial statements. Changes in the funding status are reported in comprehensive income. Additional footnote disclosures about certain effects on net periodic benefit costs for the next fiscal year that arise from delayed recognition of gains or losses on plan assets, prior service costs and transition assets or obligations are also required. SFAS 158 also requires the measurement of plan assets and obligations as of the date of the plan sponsor's fiscal year end. This provision of SFAS 158 is effective for fiscal years ending after December 15, 2008. We adopted SFAS 158 on December 15, 2006, and the adoption did not have a material impact on our results of operations or financial position.

We have a defined benefit retirement plan for the unionized employees at one of our hospitals. A minimum pension liability is required when the actuarial present value of the projected benefits exceeds the fair value of plan assets. The change in the minimum pension liability, net of income tax, is recognized through other comprehensive income. We have a minimum pension liability of $2.6 million at December 31, 2006. Net pension costs for the years ended December 31, 2006, 2005 and 2004 were not significant.

We adopted a Supplemental Executive Retirement Plan, or SERP, effective September 1, 2005, that provides select senior management with certain benefits upon retirement, death or disability. Generally, to be eligible for normal retirement benefits under the SERP, a participant must complete 12 continuous years of service, attain age 60 and be credited with at least 3 years of service after plan adoption. Benefits are determined primarily as a percentage of a participant's average annual compensation during the last three completed calendar years of employment and are payable in a lump sum to the participant. Death benefits payable to a surviving spouse are equal to one-half of the benefit that would have been paid to the participant. A minimum pension liability is required when the actuarial present value of the projected benefits exceeds the fair value of plan assets. Upon a change in control, benefits fully vest and, if permitted by applicable regulations, become payable immediately in a lump sum. If not so permitted, change in control benefits become payable in a lump sum upon termination of employment and attainment of age 55. At December 31, 2006 and 2005, we recorded a minimum pension liability in other long-term liabilities of $12.5 million and $7.7 million, respectively. We have established a rabbi trust, the assets of which are not assets of the SERP, to fund the payment of benefits under the SERP. At December 31, 2006, we had funded $3.2 million into the trust.

At December 31, 2006, as a result of adopting SFAS 158, we recorded a reduction of other assets of $6.5 million, an increase of $2.8 million in other long-term liabilities and a decrease of $5.9 million in accumulated other comprehensive income, net of income tax benefit of $3.4 million.

At December 31, 2006, the amounts recorded in other comprehensive income that have not been recognized as components of net periodic benefit cost are as follows (in millions):

Net transition obligation	$ 8.3
Net actuarial loss	1.1
Prior service cost	(0.1)
	9.3
Less income tax benefit	(3.4)
	$ 5.9

Approximately $0.6 million of the net transition obligation is expected to be recognized as a component of net periodic benefit cost in 2007.

NOTE 14 — INCOME PER SHARE

Income per common share is based on the weighted average number of shares outstanding adjusted for the shares issued to our ESOP and unvested restricted shares issued under our share-based compensation plans. Diluted weighted average shares outstanding are calculated by adjusting basic weighted shares outstanding by all potentially dilutive stock options and unvested restricted stock. For the years ended December 31, 2006, 2005 and 2004, options outstanding of 35,250, 1,751,250 and 174,250, respectively, were not included in the computation of diluted income per share because the exercise prices of the options were greater than the average market price of the common stock. Weighted average shares are as follows:

	For the Years Ended December 31,		
	2006	2005	2004
Weighted average shares exclusive of unreleased ESOP shares and unvested restricted shares	86,156,434	81,851,961	75,046,662
Average of ESOP shares committed to be released	150,000	150,000	150,000
Basic weighted average shares outstanding	86,306,434	82,001,961	75,196,662
Effect of dilutive securities — share-based compensation plans	846,585	1,601,398	1,401,263
Diluted weighted average shares outstanding	87,153,019	83,603,359	76,597,925

NOTE 15 — AGREEMENTS WITH HCA

We have entered into distribution and other related agreements governing the spin-off from HCA and our subsequent relationship with HCA. These agreements provide certain indemnifications for the parties and provide for the allocation of tax and other assets, liabilities and obligations arising from periods prior to the spin-off.

HCA and we have entered into a distribution agreement providing for certain arrangements among HCA and us subsequent to the date of the spin-off. The distribution agreement generally provides that we will be financially responsible for liabilities arising out of or in connection with our assets and entities. The distribution agreement provides, however, that HCA will indemnify us for any losses which it incurs arising from certain governmental investigations of certain of HCA's business practices. HCA will not indemnify us for losses relating to any acts, practices and omissions engaged in by us after the date of the spin-off, whether or not we are indemnified for similar acts, practices and omissions occurring prior to the date of the spin-off.

HCA and we have entered into a tax sharing and indemnification agreement, which allocates tax liabilities among HCA and us, and addresses certain other tax matters such as responsibility for filing tax returns, control of and cooperation in tax litigation and qualification of the spin-off as a tax-free transaction. Generally, HCA will be responsible for taxes that are allocable to periods prior to the spin-off, and HCA and we will each be responsible for our own tax liabilities (including our allocable share of taxes shown on any consolidated, combined or other tax return filed by HCA) for periods after the spin-off. The tax sharing and indemnification agreement prohibits us from taking actions that could jeopardize the tax treatment of either the spin-off or the internal restructuring of HCA that preceded the spin-off, and requires us to indemnify HCA for any taxes or other losses that result from any such actions.

NOTE 16 — CONTINGENCIES

False Claims Act Litigation

As a result of our ongoing discussions with the government prior to our merger with Quorum on April 27, 2001, Quorum learned of two *qui tam* complaints against it alleging violations of the False Claims Act for claims allegedly submitted to the government involving two managed hospitals. Quorum accrued the estimated liability on these items prior to the merger and the matter remains under seal. The government has requested that Quorum conduct a self audit with respect to one Medicare cost report for one managed hospital and three other specific issues. The government has stated that it intends to investigate certain other allegations.

On September 9, 2003, we were served with a *qui tam* complaint alleging, among other things, the submission of false claims for reimbursement and improper allocation of costs at a hospital in Mississippi managed by QHR, which is named as an additional defendant. The Federal government has apparently elected not to intervene in the case and the complaint was unsealed. We are vigorously defending this matter and have filed a motion to dismiss, which is pending before the court. While we currently believe that we have no liability for any of the claims alleged in the complaint, discovery has not been completed and at this time, we cannot predict the final effect or outcome of the complaint.

On May 18, 2004, we were served with a *qui tam* complaint alleging, among other things, the submission of false claims for reimbursement at two hospitals in Georgia formerly managed by QHR. This case was dismissed on October 27, 2005. The plaintiff has appealed the dismissal, and we intend to vigorously contest the appeal.

On April 26, 2005, we received a copy of a *qui tam* complaint alleging, among other things, the submission of false claims for reimbursement at a hospital in Pennsylvania managed by QHR. The Federal government elected not to intervene in this case and the complaint was recently unsealed. While we intend to vigorously defend this matter, we are not yet able to form a view as to the probable liability for any of the claims alleged in the complaint.

Our merger agreement with Quorum will not provide us indemnification in respect of the *qui tam* complaints and investigations described above. If we incur material liabilities as a result of *qui tam* litigation or governmental investigations, these matters could have a material adverse effect on our business, financial condition, results of operations or prospects.

At this time we cannot predict the final effect or outcome of the ongoing investigations or *qui tam* actions. If violations of Federal or state laws relating to Medicare, Medicaid or other government programs are found, then we may be required to pay substantial fines and civil and criminal damages and also may be excluded from participation in the Medicare and Medicaid programs and other government programs. Similarly, the amount of damages sought in the *qui tam* actions or in the future may be substantial. We could be subject to substantial costs resulting from defending, or from an adverse outcome in, any current or future investigations, administrative proceedings or litigation. In an effort to resolve one or more of these matters, we may choose to negotiate a settlement. Amounts paid to settle any of these matters may be material. Agreements entered into as a part of any settlement could also materially adversely affect us. Any current or future investigations or actions could have a material adverse effect on our results of operations or financial position.

From time to time, we may be the subject of additional investigations or a party to additional litigation, including *qui tam*, actions alleging violations of law. We may not know about those investigations or about *qui tam* actions filed against us unless and to the extent such are unsealed. If any of those matters were successfully asserted against us, there could be a material adverse effect on our business, financial position, results of operations or prospects.

Income Taxes

The Internal Revenue Service, or IRS, has concluded an examination of the Federal income tax returns for our short taxable years ended April 27, 2001, June 30, 2001 and December 31, 2001, and the taxable years ended December 31, 2002 and 2003. On May 10, 2006, the IRS issued an examination report, known as a 30-Day Letter, with proposed adjustments disallowing deductions for portions of the payments made to the Federal government in settlement of three *qui tam* cases that had been brought against Quorum. The total proposed adjustments with respect to the settlement payment deductions, if sustained, would increase taxable income in the amount of approximately $67.3 million and result in our payment of additional cash taxes of approximately $24.9 million. Any cash taxes paid resulting from the proposed adjustments in excess of the tax reserve previously established would increase goodwill from the acquisition of Quorum.

We believe our reporting of the deductions with respect to the settlement of the three *qui tam* cases was appropriate. Accordingly, on June 9, 2006, we filed a protest to the 30-Day Letter to contest the proposed adjustments and the matter has since been referred to the IRS Appeals Office. In the opinion of management, even if the IRS proposed adjustments were sustained, the adjustments would not have a material effect on our results of operations or financial position.

In the opinion of management, the settlements did not have a material impact on our results of operations or financial position.

General Liability Claims

QHR, The Intensive Resource Group, or IRG, a subsidiary of QHR, and we are defendants against claims for breach of an employment contract filed in a lawsuit involving a former employee of Cambio Health Solutions, a former subsidiary of IRG. QHR, IRG and we have been vigorously defending the claim. On May 13, 2004, a jury returned a verdict against QHR, IRG and us, and on June 8, 2004, the court entered a judgment on such verdict in the aggregate amount of approximately $5.9 million. QHR, IRG and we have appealed such judgment. We have reserved $5.9 million in respect of this judgment.

Between February 5, 2007 and February 8, 2007, four putative class action petitions were filed on behalf of alleged public stockholders of the Company in the District Court of Collin County, Texas, naming, among others, the Company and members of the Company's Board of Directors. The petitions allege, among other things, that the directors of the Company breached their fiduciary duties in connection with the proposed Merger by failing to maximize stockholder value. Among other things, the petitions seek to enjoin the Company and the directors from consummating the Merger. The Company believes that the claims asserted in these actions are without merit and intends to defend these suits vigorously.

We are subject to claims and suits arising in the ordinary course of business, including claims for personal injuries or wrongful restriction of, or interference with, physicians' staff privileges. In certain of these actions the claimants may seek punitive damages against us, which are usually not covered by insurance. It is management's opinion that the ultimate resolution of these pending claims and legal proceedings will not have a material adverse effect on our results of operations or financial position.

NOTE 17 — SEGMENT INFORMATION

Through our affiliates, we operate hospitals and related healthcare entities. For the years ended December 31, 2006, 2005 and 2004, approximately 29.5%, 31.2%, and 30.6%, respectively, of our revenues related to patients participating in the Medicare program.

We have structured our operations into two segments. The owned operations segment includes our acute care hospitals and related healthcare entities. The management services segment provides executive management services to independent acute care hospitals.

The distribution of our revenues, Adjusted EBITDA (which is used by management for operating performance review, see (a)) and assets is summarized in the following tables (dollars in millions):

	For the Years Ended December 31,		
	2006	2005	2004
Revenues:			
Owned operations	$ 5,424.2	$ 4,632.7	$ 4,106.7
Management services	112.8	114.0	111.3
Corporate and other	0.9	0.6	—
	$ 5,537.9	$ 4,747.3	$ 4,218.0

	2006	2005	2004
Adjusted EBITDA(a)			
Owned operations	$ 781.8	$773.8	$650.0
Management services	19.0	21.6	10.9
Corporate and other	(106.8)	(83.0)	(69.7)
	$ 694.0	$712.4	$591.2

	December 31,	
	2006	2005
Assets:		
Owned operations	$ 5,693.4	$ 5,118.6
Management services	123.1	124.5
Corporate and other	417.3	493.8
	$ 6,233.8	$ 5,736.9

Adjusted EBITDA for owned operations includes equity in earnings of unconsolidated affiliates of $43.5 million, $35.0 million and $20.5 million for the years ended December 31, 2006, 2005 and 2004, respectively.

A reconciliation of Adjusted EBITDA to income from continuing operations before income taxes follows (in millions):

	For the Years Ended December 31,		
	2006	2005	2004
Total Adjusted EBITDA for reportable segments	$694.0	$712.4	$591.2
Depreciation	223.2	199.6	172.3
Amortization	6.6	6.3	6.3
Interest expense	115.3	110.6	113.7
Interest income	(20.0)	(9.0)	(2.6)
Refinancing transaction costs	—	8.4	76.0
ESOP expense	12.5	14.1	10.3
Gain on sales of assets	(6.0)	(0.4)	—
Minority interests in earnings of consolidated entities	22.0	11.5	1.4
Income from continuing operations before income taxes	$340.4	$371.3	$213.8

(a) Adjusted EBITDA is defined as earnings before depreciation, amortization, interest expense, interest income, refinancing transaction costs, ESOP expense, gain on sales of assets, minority interests in earnings of consolidated entities, income tax provision and discontinued operations. Adjusted EBITDA is commonly used by lenders and investors to assess leverage capacity, debt service ability and liquidity. Many of our debt covenants use Adjusted EBITDA, or a modification of Adjusted EBITDA, in financial covenant calculations. Adjusted EBITDA is used by management to evaluate financial performance and resource allocation for each facility and for us as a whole. Adjusted EBITDA should not be considered as a measure of financial performance under generally accepted accounting principles, and the items excluded from Adjusted EBITDA are significant components in understanding and assessing financial performance. Adjusted EBITDA should not be considered in isolation or as an alternative to net income, cash flows generated by operating, investing or financing activities or financial statement data presented in the consolidated financial statements as an indicator of financial performance or liquidity. Because Adjusted EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, Adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies.

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to "we," "our," "us" and "the Company" refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

NOTE 18 — COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss, net of tax, as of December 31 are as follows (in millions):

	2006	2005
Foreign currency translation adjustment	$0.1	$ —
Unrecognized net periodic benefit costs on adjustment for the SERP	7.5	1.6
	$7.6	$1.6

NOTE 19 — OTHER CURRENT LIABILITIES AND ALLOWANCES FOR DOUBTFUL ACCOUNTS

A summary of other current liabilities as of December 31 follows (in millions):

	2006	2005
Due to HCA	$ 1.4	$ 0.9
Employee retirement plan	32.0	27.8
Taxes, other than income	34.2	29.1
Accrued interest	10.9	10.7
Self-insured employee benefit programs	39.5	42.1
Current portion of professional liability risk	37.0	21.2
Deferred income	4.1	3.6
Litigation settlement	5.9	5.9
Physician income guarantees	14.8	—
Other	23.6	21.8
	$203.4	$163.1

A summary of activity in our allowances for doubtful accounts follows (in millions):

	Balances at Beginning of Period	Additions Charged to Expense	Additions/ (Recoveries) Charged to Expense for Discontinued Operations	Accounts Written off, Net of Recoveries	Acquisitions	Balances at End of Period
Allowances for doubtful accounts:						
Year ended December 31, 2004	$ 247.2	$ 427.2	$ 43.4	$ (408.4)	$ 1.9	$ 311.3
Year ended December 31, 2005	$ 311.3	$ 403.3	$ 27.3	$ (486.9)	$ 37.8	$ 292.8
Year ended December 31, 2006	$ 292.8	$ 576.9	$ (0.5)	$ (467.2)	$ 14.3	$ 416.3

We retained certain working capital items, including accounts receivable, on certain facilities included in discontinued operations.

NOTE 20 — COSTS OF SALES

The following tables show the line items in the consolidated statements of operations that are considered costs of sales (in millions):

	For the Year Ended December 31, 2006		
	Total Expenses	General and Administrative Expenses	Costs of Sales
Salaries and benefits	$ 2,233.1	$ 66.1	$ 2,167.0
Reimbursable expenses	49.7	—	49.7
Supplies	957.9	0.4	957.5
Other operating expenses	1,069.8	40.3	1,029.5
Provision for doubtful accounts	576.9	—	576.9
Depreciation	223.2	3.3	219.9
Amortization	6.6	—	6.6
Total	$ 5,117.2	$ 110.1	$ 5,007.1

	For the Year Ended December 31, 2005		
	Total Expenses	General and Administrative Expenses	Costs of Sales
Salaries and benefits	$ 1,940.2	$ 44.4	$ 1,895.8
Reimbursable expenses	51.1	—	51.1
Supplies	801.3	0.5	800.8
Other operating expenses	874.0	38.5	835.5
Provision for doubtful accounts	403.3	—	403.3
Depreciation	199.6	2.7	196.9
Amortization	6.3	—	6.3
Total	$ 4,275.8	$ 86.1	$ 4,189.7

	For the Year Ended December 31, 2004		
	Total Expenses	General and Administrative Expenses	Costs of Sales
Salaries and benefits	$ 1,695.4	$ 40.3	$ 1,655.1
Reimbursable expenses	51.1	—	51.1
Supplies	692.4	0.4	692.0
Other operating expenses	781.2	29.7	751.5
Provision for doubtful accounts	427.2	—	427.2
Depreciation	172.3	2.5	169.8
Amortization	6.3	—	6.3
Total	$ 3,825.9	$ 72.9	$ 3,753.0

NOTE 21 — UNAUDITED QUARTERLY FINANCIAL INFORMATION

The quarterly interim financial information shown below has been prepared by our management and is unaudited. It should be read in conjunction with the audited consolidated financial statements appearing herein (dollars in millions, except per share amounts).

	2006			
	First	Second	Third	Fourth
Revenues	$ 1,369.2	$ 1,378.1	$ 1,373.1	$ 1,417.5
Income from continuing operations	$ 67.9	$ 60.0(b)	$ 40.7(c)	$ 39.3(d)
Net income	$ 83.1(a)	$ 60.1(b)	$ 39.8(c)	$ 39.3(d)
Basic income from continuing operations per share	$ 0.79	$ 0.70(b)	$ 0.47(c)	$ 0.45(d)
Basic net income per share	$ 0.97(a)	$ 0.70(b)	$ 0.46(c)	$ 0.45(d)
Diluted income from continuing operations per share	$ 0.79	$ 0.69(b)	$ 0.47(c)	$ 0.45(d)
Diluted net income per share	$ 0.96(a)	$ 0.69(b)	$ 0.46(c)	$ 0.45(d)

	2005			
	First	Second	Third	Fourth
Revenues	$ 1,153.1	$ 1,167.3	$ 1,160.9	$ 1,266.0
Income from continuing operations	$ 63.9	$ 51.2(e)	$ 55.3	$ 59.0
Net income	$ 66.2	$ 58.9(e)	$ 46.3(f)	$ 54.6(g)
Basic income from continuing operations per share	$ 0.82	$ 0.64(e)	$ 0.65	$ 0.69
Basic net income per share	$ 0.85	$ 0.74(e)	$ 0.54(f)	$ 0.64(g)
Diluted income from continuing operations per share	$ 0.80	$ 0.62(e)	$ 0.64	$ 0.68
Diluted net income per share	$ 0.83	$ 0.72(e)	$ 0.53(f)	$ 0.63(g)

(a) During the first quarter of 2006, we recorded a pre-tax gain on a sale of assets of $25.8 million.

(b) During the second quarter of 2006, we recorded a $10.3 million pre-tax change in estimate to increase our estimated liabilities for general and professional insurance.

(c) During the third quarter of 2006, we recorded a pre-tax change in estimate of $15.0 million to increase our allowance for doubtful accounts.

(d) During the fourth quarter of 2006, we recorded a pre-tax change in estimate of $29.4 million to increase our allowance for doubtful accounts and a $25.1 million pre-tax change in estimate to reduce our estimated general and professional liabilities.

(e) During the second quarter of 2005, we recorded an $8.4 million pre-tax charge related to refinancing transaction costs.

(f) During the third quarter of 2005, we recorded a $7.5 million pre-tax charge in discontinued operations related to impairment of certain long-lived assets.

(g) During the fourth quarter of 2005, we recorded a $1.7 million pre-tax loss related to the sale of one hospital.

NOTE 22 — SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

On July 25, 2007, the Company was acquired by Community Health Systems, Inc. (“CHS”). In connection with this transaction, a wholly owned subsidiary of CHS issued 8.875% Senior Notes maturing in 2015 the (“Notes”). Along with other subsidiaries of CHS, Triad and certain of its direct and indirect 100% owned subsidiaries have fully and unconditionally guaranteed those Notes. These guarantees are also joint and several. The following condensed consolidating financial statements present the subsidiary guarantors, subsidiary non-guarantors, eliminations and consolidated Triad as defined in the terms of the Notes.

22. Supplemental Condensed Consolidating Financial Information (Continued)

TRIAD HOSPITALS, INC.
CONDENSED CONSOLIDATING BALANCE SHEET
(Amounts in millions)
December 31, 2006

	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Assets				
Current Assets				
Cash and cash equivalents	$ 4.8	203.8	—	$ 208.6
Accounts receivable, less allowance for doubtful accounts	521.2	396.7	—	917.9
Inventories	79.5	69.9	—	149.4
Deferred income taxes	38.4	—	—	38.4
Prepaid expenses	14.7	37.4	—	52.1
Other	72.7	57.4	(2.1)	128.0
	731.3	765.2	(2.1)	1,494.4
Property and equipment, at cost	2,249.0	1,918.9	—	4,167.9
Accumulated depreciation	(747.5)	(480.2)	—	(1,227.7)
	1,501.5	1,438.7	—	2,940.2
Investments in subsidiaries	2,846.3	—	(2,846.3)	—
Goodwill	1,101.1	258.6	—	1,359.7
Intangible assets, net of accumulated amortization	58.3	22.8	—	81.1
Due from affiliates	—	586.9	(586.9)	—
Investment in and advances to unconsolidated affiliates	239.3	3.6	—	242.9
Other	107.5	272.2	(264.2)	115.5
Total assets	$ 6,585.3	$ 3,348.0	$ (3,699.5)	$ 6,233.8
Liabilities and Equity				
Current Liabilities:				
Accounts payable	110.9	138.9	—	249.8
Accrued salaries	62.6	64.4	—	127.0
Current portion of long term debt	19.8	3.6	(2.1)	21.3
Current income taxes payable	—	—	—	—
Other current liabilities	83.5	119.9	—	203.4
	276.8	326.8	(2.1)	601.5
Due to affiliates	586.9	—	(586.9)	—
Long-term debt	1,930.6	17.7	(264.2)	1,684.1
Other liabilities	30.3	157.2	—	187.5
Deferred income taxes	193.5	—	—	193.5
Minority interests in equity of consolidated entities	340.8	—	—	340.8
Stockholders' equity	3,226.4	2,846.3	(2,846.3)	3,226.4
Total liabilities and stockholders' equity	$ 6,585.3	$ 3,348.0	$ (3,699.5)	$ 6,233.8

22. Supplemental Condensed Consolidating Financial Information (Continued)

TRIAD HOSPITALS, INC.
CONDENSED CONSOLIDATING STATEMENT OF INCOME
(Amounts in millions)
For the year ended December 31, 2006

	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ 2,983.5	$ 2,554.4	$ —	$ 5,537.9
Salaries and benefits, including share-based compensation expense	1,060.8	1,172.3	—	2,233.1
Reimbursable expenses	49.7	—	—	49.7
Supplies	487.6	470.3	—	957.9
Other operating expenses	492.5	577.3	—	1,069.8
Provision for doubtful accounts	345.0	231.9	—	576.9
Depreciation	122.3	100.9	—	223.2
Amortization	5.8	0.8	—	6.6
Interest expense allocated	(20.7)	20.7	—	—
Interest expense, net of capitalized interest	118.5	(3.2)	—	115.3
Interest income	(3.7)	(16.3)	—	(20.0)
ESOP expense	12.5	—	—	12.5
Management fees	88.3	(88.3)	—	—
Gain on sale of assets	(0.9)	(5.1)	—	(6.0)
Impairment of long lived assets	—	—	—	—
	$ 2,757.7	$ 2,461.3	$ —	$ 5,219.0
Income from continuing operations before minority interests, equity in earnings and income tax provision	$ 225.8	$ 93.1	$ —	$ 318.9
Minority interests in earnings of consolidated entities	(22.0)	—	—	(22.0)
Equity in earnings of unconsolidated affiliates	151.0	0.6	(108.1)	43.5
Income from continuing operations before income tax provision	354.8	93.7	(108.1)	340.4
Income tax provision	(132.5)	—	—	(132.5)
Income from continuing operations	222.3	93.7	(108.1)	207.9
Income from discontinued operations, net of tax	—	14.4	—	14.4
Net income	$ 222.3	$ 108.1	$ (108.1)	$ 222.3

22. Supplemental Condensed Consolidating Financial Information (Continued)

TRIAD HOSPITALS, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW
(Amounts in millions)
For the year ended December 31, 2006

	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:				
Net income	$ 222.3	$ 108.1	$ (108.1)	$ 222.3
Adjustments to reconcile net income to net cash provided by operating activities:				
Income for discontinued operations, net of tax	—	(14.4)	—	(14.4)
Provision for doubtful accounts	345.0	231.9	—	576.9
Depreciation and amortization	128.1	101.7	—	229.8
ESOP expense	12.5	—	—	12.5
Minority interests	22.0	—	—	22.0
Equity in earnings of unconsolidated affiliates	(151.0)	(0.6)	108.1	(43.5)
Gain on sale of assets	(0.9)	(5.1)	—	(6.0)
Deferred income taxes benefit	(5.7)	—	—	(5.7)
Non-cash interest expense	3.4	—	—	3.4
Non-cash share based compensation	27.7	—	—	27.7
Excess tax benefits on share-based compensation	(1.7)	—	—	(1.7)
Increase (decrease) in cash from operating assets and liabilities (net of acquisitions)				
Accounts receivable	(385.4)	(279.0)	—	(664.4)
Inventories and other assets	(12.9)	(78.9)	—	(91.8)
Accounts payable and other current liabilities	(0.4)	5.4	—	5.0
Other	(1.3)	32.6	—	31.3
Net cash provided by operating activities	201.7	101.7	—	303.4
Cash flows from investing activities				
Purchases of property and equipment	(144.2)	(317.6)	—	(461.8)
Distributions and advances from unconsolidated affiliates	—	1.8	—	1.8
Investment in and advances to consolidated affiliates	(325.2)	325.2	—	—
Proceeds received on disposal of assets	5.9	111.2	—	117.1
Acquisitions, net of cash acquired	(6.1)	(118.6)	—	(124.7)
Other	(13.8)	13.5	—	(0.3)
Net cash provided by (used in) investing activities	(483.4)	15.5	—	(467.9)
Cash flows from financing activities				
Payments of long-term debt	82.9	(90.5)	—	(7.6)
Proceeds from issuance of common stock	37.6	—	—	37.6
Excess tax benefits on share-based compensation	1.7	—	—	1.7
Contributions from minority partners, net of distributions		31.2	—	31.2
Increase (decrease) in due to (from) affiliate	157.9	(157.9)	—	—
Net cash provided by (used in) financing activities	280.1	(217.2)	—	62.9
Change in cash and cash equivalents	(1.6)	(100.0)	—	(101.6)
Cash and cash equivalents at beginning of period	6.4	303.8	—	310.2
Cash and cash equivalents at end of period	$ 4.8	$ 203.8	$ —	$ 208.6

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to "we," "our," "us" and "the Company" refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

TRIAD HOSPITALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the periods ended June 30, 2007 and 2006
Unaudited
(Dollars in millions, except per share amounts)

	For the three months ended		For the six months ended	
	2007	2006	2007	2006
Revenues	$ 1,485.1	$ 1,378.1	$ 2,975.9	$ 2,747.3
Salaries and benefits, including share-based compensation expense of $7.9 and $6.9 for the three months ended and $16.0 and $13.7 for the six months ended June 30, 2007 and 2006, respectively	615.6	553.9	1,230.6	1,111.4
Reimbursable expenses	11.9	12.3	24.6	26.0
Supplies	251.5	234.5	505.7	471.7
Other operating expenses	306.0	272.3	610.3	525.4
Provision for doubtful accounts	155.4	128.2	303.5	248.9
Depreciation	60.2	55.5	119.4	108.8
Amortization	1.9	2.1	3.9	3.6
Interest expense	26.5	28.9	53.9	57.6
Interest income	(2.7)	(5.2)	(5.7)	(10.2)
ESOP expense	4.0	3.1	7.5	6.1
(Gain) loss on sales of assets	(0.1)	(0.5)	0.4	(0.6)
Total operating expenses	1,430.2	1,285.1	2,854.1	2,548.7
Income from continuing operations before minority interests, equity in earnings and income tax provision	54.9	93.0	121.8	198.6
Minority interests in earnings of consolidated entities	(6.0)	(5.2)	(12.8)	(10.0)
Equity in earnings of unconsolidated affiliates	9.5	9.8	23.6	19.8
Income from continuing operations before income tax provision	58.4	97.6	132.6	208.4
Income tax provision	(28.2)	(37.6)	(60.7)	(80.5)
Income from continuing operations	30.2	60.0	71.9	127.9
Income (loss) from discontinued operations, net of tax	0.2	0.1	(0.4)	15.3
Net income	$ 30.4	$ 60.1	$ 71.5	$ 143.2
Income per common share:				
Basic:				
Continuing operations	$ 0.35	$ 0.70	$ 0.82	$ 1.49
Discontinued operations	$ —	$ —	$ —	$ 0.18
Net	$ 0.35	$ 0.70	$ 0.82	$ 1.67
Diluted:				
Continuing operations	$ 0.34	$ 0.69	$ 0.80	$ 1.48
Discontinued operations	$ —	$ —	$ —	$ 0.17
Net	$ 0.34	$ 0.69	$ 0.80	$ 1.65

See notes to the condensed consolidated financial statements

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to "we," "our," "us" and "the Company" refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

TRIAD HOSPITALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
Unaudited
(Dollars in millions)

	June 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 63.2	$ 208.6
Accounts receivable, less allowances for doubtful accounts of $425.6 at June 30, 2007 and $416.3 at December 31, 2006	979.4	917.9
Inventories	152.7	149.4
Deferred income taxes	41.6	38.4
Prepaid expenses	48.9	52.1
Other	100.9	128.0
	1,386.7	1,494.4
Property and equipment, at cost:		
Land	214.0	212.0
Buildings and improvements	2,050.2	2,011.7
Equipment	1,788.5	1,705.4
Construction in progress	457.4	238.8
	4,510.1	4,167.9
Accumulated depreciation	(1,341.1)	(1,227.7)
	3,169.0	2,940.2
Goodwill	1,365.8	1,359.7
Intangible assets, net of accumulated amortization	77.2	81.1
Investment in and advances to unconsolidated affiliates	260.2	242.9
Other	120.3	115.5
Total assets	$ 6,379.2	$ 6,233.8
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 245.1	$ 249.8
Accrued salaries	145.7	127.0
Current portion of long-term debt	26.9	21.3
Current income taxes payable	39.5	—
Other current liabilities	202.0	203.4
	659.2	601.5
Long-term debt	1,670.6	1,684.1
Other liabilities	201.8	187.5
Deferred income taxes	172.2	193.5
Minority interests in equity of consolidated entities	339.1	340.8
Stockholders' equity:		
Common stock $0.01 par value: 120,000,000 shares authorized, 89,553,855 and 88,339,049 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	0.9	0.9
Additional paid-in capital	2,450.8	2,410.5
Unearned ESOP compensation	(5.2)	(6.9)
Accumulated other comprehensive loss	(7.1)	(7.6)
Accumulated earnings	900.1	829.5
Less: Treasury stock, at cost, 63,288 shares at June 30, 2007	(3.2)	—
Total stockholders' equity	3,336.3	3,226.4
Total liabilities and stockholders' equity	$ 6,379.2	$ 6,233.8

See notes to the condensed consolidated financial statements

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to "we," "our," "us" and "the Company" refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

TRIAD HOSPITALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the periods ended June 30, 2007 and 2006
Unaudited
(Dollars in millions)

	For the six months ended	
	2007	2006
Cash flows from operating activities:		
Net income	$ 71.5	$ 143.2
Adjustments to reconcile net income to net cash provided by operating activities:		
(Income) loss from discontinued operations, net of tax	0.4	(15.3)
Provision for doubtful accounts	303.5	248.9
Depreciation and amortization	123.3	112.4
ESOP expense	7.5	6.1
Minority interests	12.8	10.0
Equity in earnings of unconsolidated affiliates	(23.6)	(19.8)
(Gain) loss on sales of assets	0.4	(0.6)
Deferred income tax benefit	(10.4)	(11.7)
Non-cash interest expense	1.7	1.6
Non-cash share-based compensation expense	16.0	13.7
Excess tax benefits on share-based compensation	(1.5)	(1.2)
Increase (decrease) in cash from operating assets and liabilities:		
Accounts receivable	(365.0)	(321.7)
Inventories and other assets	19.5	(22.5)
Accounts payable and other current liabilities	51.9	(31.9)
Other	7.8	21.7
Net cash provided by operating activities	215.8	132.9
Cash flows from investing activities:		
Purchases of property and equipment	(350.1)	(233.4)
Distributions and advances (to) from unconsolidated affiliates, net	6.3	(9.6)
Proceeds received on disposals of assets	2.2	102.6
Acquisitions, net of cash acquired	(33.4)	(49.2)
Other	—	(0.1)
Net cash used in investing activities	(375.0)	(189.7)
Cash flows from financing activities:		
Payments of long-term debt	(7.8)	(1.0)
Proceeds from issuance of common stock	16.5	21.9
Payments for purchase of treasury stock	(3.2)	—
Excess tax benefits on share-based compensation	1.5	1.2
Contributions from minority partners, net	6.8	0.5
Net cash provided by financing activities	13.8	22.6
Change in cash and cash equivalents	(145.4)	(34.2)
Cash and cash equivalents at beginning of period	208.6	310.2
Cash and cash equivalents at end of period	$ 63.2	$ 276.0
Cash paid for:		
Interest	$ 58.7	$ 58.0
Income taxes, net of refunds	$ 8.9	$ 117.6

See notes to the condensed consolidated financial statements

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to "we," "our," "us" and "the Company" refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

TRIAD HOSPITALS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

NOTE 1—PROPOSED MERGER

On March 19, 2007, we entered into an Agreement and Plan of Merger (the Merger Agreement), with Community Health Systems, Inc. (CHS) and FWCT-1 Acquisition Corporation, a wholly-owned subsidiary of CHS (Merger Sub). Under the terms of the Merger Agreement, Merger Sub will be merged with and into Triad Hospitals, Inc. (the Company), with the Company continuing as the surviving corporation and a wholly-owned subsidiary of CHS (the Merger). On February 4, 2007, we entered into an Agreement and Plan of Merger (the Prior Merger Agreement) with entities owned by private investment funds affiliated with CCMP Capital Advisors, LLC and Goldman Sachs & Co. (collectively, Panthera). Immediately prior to the execution of the Merger Agreement, the Company terminated the Prior Merger Agreement. Our Board of Directors approved the Merger Agreement and the termination of the Prior Merger Agreement on the unanimous recommendation of a Special Committee comprised entirely of disinterested directors (the Special Committee). Concurrent with the termination of the Prior Merger Agreement and pursuant to the terms thereof, we paid Panthera a termination fee of $20 million and advanced $20 million to Panthera to cover its out-of-pocket expenses (the Prior Agreement Amount). CHS reimbursed us for such amounts pursuant to the terms of the Merger Agreement.

At the effective time of the Merger, each outstanding share of our common stock, other than shares owned by us, CHS, Merger Sub, or any stockholders who are entitled to and who properly exercise appraisal rights under Delaware law, will be cancelled and converted into the right to receive $54.00 in cash, without interest.

We have made customary representations, warranties and covenants in the Merger Agreement. The Merger Agreement contains a "no shop" restriction on our ability to solicit third party proposals, provide information and engage in discussions and negotiations with third parties. The no shop provision is subject to a "fiduciary out" provision that allows us to provide information and participate in discussions and negotiations with respect to third party acquisition proposals submitted after the date of the Merger Agreement that the Board of Directors (following the recommendation of the Special Committee) believes in good faith to be bona fide and determines in good faith, after consultation with its financial advisors and outside counsel, constitute or could reasonably be expected to result in a "superior proposal," as defined in the Merger Agreement.

We may terminate the Merger Agreement under certain circumstances, including if our Board of Directors (following the recommendation of the Special Committee) determines in good faith that it has received a superior proposal and that failure to terminate the Merger Agreement could violate its fiduciary duties, and otherwise complies with certain terms of the Merger Agreement. In connection with such termination, we must pay a fee of $130 million to CHS and reimburse CHS for any amounts paid by CHS to us in respect of the Prior Agreement Amount. In certain other circumstances, we must pay a fee of $130 million upon termination of the Merger Agreement. Under other circumstances upon termination of the Merger Agreement, we must reimburse CHS for its expenses of up to $15 million and for the Prior Agreement Amount.

The parties to the Merger Agreement are entitled to specific performance of the terms of the Merger Agreement, in addition to any other remedy to which they are entitled, including damages for any breach of the Merger Agreement by the other party. CHS has obtained debt financing commitments for the transactions contemplated by the Merger Agreement, the aggregate proceeds of which, together with cash on hand, will be sufficient for CHS to pay all amounts required to consummate the Merger and other transactions contemplated by the Merger Agreement, including any contemplated refinancing of debt and all related fees and expenses. Consummation of the Merger is not subject to a financing condition, but is subject to various other conditions, including approval of the Merger by our stockholders, the receipt of required regulatory approvals and other customary closing conditions. The applicable 30-day waiting period under the Hart-Scott-Rodino Antitrust Improvement Act of 1976 expired on April 23, 2007. The parties currently expect to close the transaction during the third quarter of 2007.

A special meeting of the stockholders was held on Tuesday, June 12, 2007 for stockholders of record on May 3, 2007. The special meeting was called (i) to vote upon and approve the Merger Agreement, (ii) to consider and vote upon a proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to "we," "our," "us" and "the Company" refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

NOTE 1—PROPOSED MERGER (continued)

were insufficient votes at the time of the special meeting to adopt the Merger Agreement, and (iii) to transact such other business that may properly come before the special meeting or any adjournments thereof. The Merger Agreement was approved by a majority of the stockholders at the special meeting.

We had approximately $10.5 and $20.9 million in costs included in other operating expenses for the three and six months ended June 30, 2007, respectively, related to the proposed Merger, which reduced diluted earnings per share by approximately $0.11 and $0.19 per share for the three and six months ended June 30, 2007, respectively.

NOTE 2—BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles for interim financial information. Accordingly, they do not include all of the information and notes required by U.S. Generally Accepted Accounting Principles for complete financial statements of Triad Hospitals, Inc. 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, 2006.

The condensed consolidated balance sheet at December 31, 2006 has been derived from the audited consolidated financial statements at that date but does not include all of the information and notes required by U.S. Generally Accepted Accounting Principles for complete financial statements.

NOTE 3—SHARE-BASED COMPENSATION PLANS

A summary of stock option activity under our share-based compensation plans at June 30, 2007 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2007	6,905,470	$ 33.81		
Granted	—	$ —		
Exercised	(281,393)	$ 33.01		
Cancelled	(54,260)	$ 38.80		
Outstanding at June 30, 2007	6,569,817	$ 33.80	6.2	$ 131,122,977
Exercisable at June 30, 2007	5,161,579	$ 32.18	5.7	$ 111,363,682

The total intrinsic value of options exercised during the six months ended June 30, 2007 was $5.1 million.

A summary of our non-vested shares at June 30, 2007 is presented below:

	Restricted Stock		MSPP Shares		DSUs	
	Shares	Weighted Average Grant-date Fair Value	Shares	Weighted Average Grant-date Fair Value	Shares	Weighted Average Grant-date Fair Value
Non-vested at January 1, 2007	761,350	$41.90	73,218	$11.09	23,424	$36.31
Granted	803,756	$49.89	—	$ —	—	$ —
Vested	(215,466)	$42.15	(14,303)	$ 9.99	(2,499)	$40.84
Cancelled	(16,680)	$43.99	(2,186)	$11.33	—	$ —
Non-vested at June 30, 2007	1,332,960	$46.65	56,729	$12.04	20,925	$35.77

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to "we," "our," "us" and "the Company" refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

NOTE 3—SHARE-BASED COMPENSATION PLANS (continued)

We repurchased 63,288 shares of stock to be held in the treasury for $3.2 million in 2007 in order to satisfy the amount of minimum tax withholding liabilities that were incurred upon vesting of restricted stock.

The total fair value of shares vested during the six months ended June 30, 2007 was $23.9 million.

Cash received from option exercises under share-based payment arrangements for the six months ended June 30, 2007 was $16.5 million. The actual tax benefit realized for the tax deductions of the share-based payment arrangements for the six months ended June 30, 2007 was $6.4 million.

NOTE 4—INCOME TAXES

On January 1, 2007, we adopted the Financial Accounting Standards Board Interpretation No. 48 "Accounting for Uncertainty in Income Taxes", or FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in accordance with the provisions of Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes", or SFAS 109. The cumulative effect of applying the provisions of FIN 48 is reported as an adjustment to the January 1, 2007 balance of retained earnings. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. We had approximately $11.8 million of unrecognized tax benefits at December 31, 2006. We reduced the January 1, 2007 balance of retained earnings by $0.9 million from the adoption of FIN 48. Also, the unrecognized tax benefits previously established through purchase accounting for the Quorum acquisition were reduced by $3.2 million from the adoption of FIN 48 through a reduction to goodwill. We also reclassified the unrecognized tax benefits from deferred tax liabilities to other long-term liabilities upon adoption of FIN 48.

A reconciliation of the beginning and ending balances of unrecognized tax benefits is as follows (in millions):

Balance at January 1, 2007	$	9.5
Additions based on tax positions related to the current year		0.4
Additions for tax positions of prior years		2.8
Reductions for tax positions of prior years		(2.3)
Balance at June 30, 2007	$	10.4

The reduction for tax positions of prior years was related to unrecognized tax benefits previously established through purchase accounting for the Quorum acquisition and was recorded as a reduction to goodwill based on a tentative settlement with the taxing authorities.

We had approximately $4.0 million of other current liabilities and $6.4 million of other long-term liabilities for unrecognized tax benefits and accrued interest and penalties at June 30, 2007.

We recognize interest accrued and penalties related to unrecognized tax benefits in our income tax provision. During the three and six months ended June 30, 2007, we recognized approximately $0.1 million and $0.7 million respectively in interest and penalties. We made no payments of interest and penalties during the three and six months ended June 30, 2007.

NOTE 5—DISCONTINUED OPERATIONS

Effective January 1, 2006, we closed on a definitive agreement to sell our hospitals in Wharton, Texas, Pampa, Texas and Hope, Arkansas for $75 million plus $15.1 million for working capital. These facilities were reclassified to discontinued operations in the fourth quarter of 2005. We recognized a pre-tax gain on the sale in discontinued operations of $27.2 million in the first quarter of 2006. These facilities were a component of the owned operations segment.

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to “we,” “our,” “us” and “the Company” refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

TRIAD HOSPITALS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

NOTE 5—DISCONTINUED OPERATIONS (continued)

We closed under an agreement in May 2004 to sell certain assets related to our leased acute care hospital in Terrell, Texas. At the time of the disposal, we recorded $3.4 million in notes receivable. During the third quarter of 2006, the borrower defaulted on the first payment due under the notes. A reserve on the notes for the amount in excess of the estimated value of the collateral of approximately $1.4 million was recorded in discontinued operations. During the first quarter of 2007, an additional reserve of approximately $0.6 million was recorded in discontinued operations.

Revenues and income for these entities are included in the condensed consolidated statements of operations as “Income (loss) from discontinued operations, net of tax” for all periods presented. The amounts are as follows (in millions):

	For the three months ended June 30,		For the six months ended June 30,	
	2007	2006	2007	2006
Revenues	$ 0.3	$ 0.3	—	$ 1.0
Pre-tax income (loss) from operations	0.3	0.2	—	(0.9)
Income tax (provision) benefit	(0.1)	(0.1)	—	0.3
	0.2	0.1	—	(0.6)
Gain (loss) on disposal, net of tax (provision) benefit of $0.2 million and ($11.3) million for the six months ended June 30, 2007 and 2006, respectively	—	—	(0.4)	15.9
	$ 0.2	$ 0.1	$ (0.4)	$ 15.3

NOTE 6 — GUARANTEES

We have entered into physician recruiting agreements under which we supplement physician income to a minimum amount over a period of time while the physicians establish themselves in the community. As part of the agreements, the physicians are required to stay in the community for a period of time after the payments have ended, typically three years, or the payments are required to be returned to us. The payments under these agreements are forgiven ratably if the physicians stay in the community through the end of the agreement. We record an asset for the estimated fair value of the minimum revenue guarantees and amortize the asset from the beginning of the guarantee payment period through the end of the agreement. At June 30, 2007, we had liabilities for the minimum revenue guarantees entered into after January 1, 2006 of $23.0 million. At June 30, 2007, including the minimum revenue guarantees entered into prior to January 1, 2006, the maximum amount of all unpaid minimum revenue guarantees was $51.9 million.

We have entered into agreements whereby we have guaranteed certain loans entered into by patients for whom services were performed at our facilities. All uninsured patients are eligible to apply for these loans. These loans are provided by various financial institutions who determine whether the loans are made. The terms of the loans range from 1 to 5 years. We would be obligated to repay the financial institutions if a patient fails to repay his or her loan. We could then pursue collections from the patient. We record a reserve for the estimated defaults on these loans at the historical default rate, which was approximately 30.3% at June 30, 2007 and December 31, 2006. At June 30, 2007 and December 31, 2006, the amounts subject to the guarantees were $23.5 million and $23.4 million, respectively. We had accrued liabilities of $7.1 and $7.0 million at June 30, 2007 and December 31, 2006, respectively, for the estimated loan defaults that would be covered under the guarantees.

We have entered into agreements to guarantee the indebtedness of certain joint ventures that are accounted for by the equity method. The maximum amount of the guarantees entered into was $3.3 million at June 30, 2007. Minimum amounts were recorded for the fair value of the guarantees.

NOTE 7—INCOME PER SHARE

Income per common share is based on the weighted average number of shares outstanding adjusted for the shares issued to our Employee Stock Ownership Plan (“ESOP”) and unvested restricted shares issued under our

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to "we," "our," "us" and "the Company" refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

TRIAD HOSPITALS, INC.
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NOTE 7—INCOME PER SHARE (continued)

share-based compensation plans. Diluted weighted average shares outstanding are calculated by adjusting basic weighted average shares outstanding by all potentially dilutive stock options and unvested restricted stock. Stock options outstanding of 1,816,775 for the three and six months ended June 30, 2006, were not included in the computation of diluted earnings per share because the exercise prices of the options were greater than the average market price of the common stock. Weighted average shares are as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2007	2006	2007	2006
Weighted average shares exclusive of unreleased ESOP shares and unvested restricted shares	87,410,286	86,034,346	87,304,366	85,883,229
Average of ESOP shares committed to be released	112,500	112,500	75,000	75,000
Basic weighted average shares outstanding	87,522,786	86,146,846	87,379,366	85,958,229
Effect of dilutive securities — share-based compensation plans	2,287,161	847,880	1,961,404	706,944
Diluted weighted average shares outstanding	89,809,947	86,994,726	89,340,770	86,665,173

NOTE 8—SEGMENT INFORMATION

The distribution of our revenues and Adjusted EBITDA of continuing operations (which is used by management for operating performance review, see (a)) is summarized in the following table (dollars in millions):

	For the three months ended June 30,		For the six months ended June 30,	
	2007	2006	2007	2006
Revenues:				
Owned operations	$ 1,457.4	$ 1,349.7	$ 2,919.8	$ 2,690.2
Management services	27.5	28.2	55.8	56.7
Corporate and other	0.2	0.2	0.3	0.4
	$ 1,485.1	$ 1,378.1	$ 2,975.9	$ 2,747.3

	For the three months ended June 30,		For the six months ended June 30,	
	2007	2006	2007	2006
Adjusted EBITDA (a):				
Owned operations	$ 193.4	$ 214.1	$ 401.7	$ 435.0
Management services	3.9	4.6	7.9	8.0
Corporate and other	(43.1)	(32.0)	(84.8)	(59.3)
	$ 154.2	$ 186.7	$ 324.8	$ 383.7

Adjusted EBITDA for owned operations includes equity in earnings of unconsolidated affiliates of $9.5 million and $9.8 million for the three months ended June 30, 2007 and 2006, respectively, and $23.6 million and $19.8 million for the six months ended June 30, 2007 and 2006, respectively.

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to "we," "our," "us" and "the Company" refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

NOTE 8—SEGMENT INFORMATION (continued)

A reconciliation of Adjusted EBITDA to income from continuing operations before income tax provision follows (in millions):

	For the three months ended June 30, 2007	For the three months ended June 30, 2006	For the six months ended June 30, 2007	For the six months ended June 30, 2006
Total Adjusted EBITDA for reportable segments	$ 154.2	$ 186.7	$ 324.8	$ 383.7
Depreciation	60.2	55.5	119.4	108.8
Amortization	1.9	2.1	3.9	3.6
Interest expense	26.5	28.9	53.9	57.6
Interest income	(2.7)	(5.2)	(5.7)	(10.2)
ESOP expense	4.0	3.1	7.5	6.1
(Gain) loss on sales of assets	(0.1)	(0.5)	0.4	(0.6)
Minority interests in earnings of consolidated entities	6.0	5.2	12.8	10.0
Income from continuing operations before income tax provision	$ 58.4	$ 97.6	$ 132.6	$ 208.4

(a) Adjusted EBITDA is defined as earnings before depreciation, amortization, interest expense, interest income, ESOP expense, (gain) loss on sales of assets, minority interests in earnings of consolidated entities, income tax provision and discontinued operations. Adjusted EBITDA is commonly used by lenders and investors to assess leverage capacity, debt service ability and liquidity. Many of our debt covenants use Adjusted EBITDA, or a modification of Adjusted EBITDA, in financial covenant calculations. Adjusted EBITDA is used by management to evaluate financial performance and resource allocation for each facility and for us as a whole. Adjusted EBITDA should not be considered as a measure of financial performance under U.S. Generally Accepted Accounting Principles, and the items excluded from Adjusted EBITDA are significant components in understanding and assessing financial performance. Adjusted EBITDA should not be considered in isolation or as an alternative to net income, cash flows generated by operating, investing or financing activities or financial statement data presented in the condensed consolidated financial statements as an indicator of financial performance or liquidity. Because Adjusted EBITDA is not a measurement determined in accordance with U.S. Generally Accepted Accounting Principles and is thus susceptible to varying calculations, Adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies.

NOTE 9—COMPREHENSIVE INCOME

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", or SFAS 130 establishes guidelines for reporting changes in equity during a period from transactions and other events and circumstances from non-owner sources.

The component of comprehensive income, net of income tax, is as follows (in millions):

	For the three months ended June 30, 2007	For the three months ended June 30, 2006	For the six months ended June 30, 2007	For the six months ended June 30, 2006
Net income	$ 30.4	$ 60.1	$ 71.5	$ 143.2
Other comprehensive income, net of income tax:				
Recognition of unrecognized net periodic benefit costs	0.2	—	0.5	—
Comprehensive income	$ 30.6	$ 60.1	$ 72.0	$ 143.2

The components of accumulated other comprehensive loss, net of tax, are as follows (in millions):

	June 30, 2007	December 31 2006
Foreign currency translation adjustment	$ 0.1	$ 0.1
Unrecognized net periodic benefit costs	7.0	7.5
	$ 7.1	$ 7.6

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to "we," "our," "us" and "the Company" refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

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NOTE 10—EQUITY INVESTMENTS

We own equity interests of 27.5% in Valley Health System LLC and 26.1% in Summerlin Hospital Medical Center LLC. Universal Health Systems has the majority interest in Valley Health System LLC and Summerlin Hospital Medical Center LLC. We own an equity interest of 38.0% in Macon Healthcare LLC. HCA has the majority interest in Macon Healthcare LLC. We also own a 50% interest in MCSA, LLC with our partner, SHARE Foundation, a not-for-profit foundation. We use the equity method of accounting for our investments in these entities. Summarized financial information of these entities is as follows (in millions):

	For the three months ended June 30,		For the six months ended June 30,	
	2007	2006	2007	2006
Revenues	$ 307.8	$ 288.6	$ 638.5	$ 567.5
Net income	$ 35.7	$ 32.6	$ 84.4	$ 66.9

NOTE 11—CONTINGENCIES

Litigation Concerning Triad's Pending Merger

Between February 5, 2007 and March 2, 2007, five putative class action lawsuits, entitled *Market Street Securities v. Shelton, et al.*, Cause No. 296-0436-07 (Feb. 5, 2007), *Clark v. Triad Hospitals, Inc., et al.*, Cause No. 296-0461-07 (Feb. 6, 2007), *Rubery v. Triad Hospitals, Inc., et al.*, Cause No. 296-0566-07 (Feb. 6, 2007), *Sternhell v. Shelton, et al.*, Cause No. 416-0494-0 (Feb. 8, 2007) and *Thomas Purdy, III v. Triad Hospitals Inc., et al.*, Cause No. 296-809-07 (Mar. 2, 2007), were filed against Triad and its directors. The *Rubery* and *Sternhell* petitions also named as defendants CCMP Capital Investors II, L.P. and GS Capital Partners VI, L.P., and the *Sternhell* petition further named Panthera Partners, LLC, Panthera Holdco Corp. and Panthera Acquisition Corporation as defendants. All of the petitions were filed in the District Court of Collin County, Texas. The petitions, which purported to be brought on behalf of all Triad stockholders (excluding the defendants and their affiliates), alleged that the $50.25 per share in cash that was to be paid to stockholders in connection with Triad's previously proposed merger with affiliates of CCMP Capital Investors II, L.P. and GS Capital Partners VI, L.P. was inadequate, and that Triad and its directors violated their fiduciary obligations to stockholders in negotiating and approving the merger.

Following the announcement on March 19, 2007 that Triad had terminated its previous merger agreement with affiliates of CCMP Capital Investors II, L.P. and GS Capital Partners VI, L.P. and had, instead, entered into a merger agreement at $54.00 per share with CHS, the above-referenced actions were consolidated in the 296th District Court of Collin County, Texas. On April 23, 2007, plaintiffs filed a consolidated amended petition challenging the proposed transaction with CHS. The consolidated amended petition alleges, among other things, that (i) the $54.00 per share in cash that is to be paid to stockholders in connection with Triad's proposed merger with CHS is still inadequate; (ii) the "go shop" auction process that led to the higher offer from CHS was flawed; (iii) the directors violated their fiduciary duties to shareholders by administering a sale process that failed to maximize shareholder value; (iv) the terms of the merger agreement with CHS, which include a so-called "non-solicitation" clause and a $130 million termination fee, will artificially deter higher bids for the Company; (v) the directors breached their fiduciary duties by approving, in mid-December 2006, amended change in control severance agreements with several Triad executives; and (vi) the Company failed to disclose certain purportedly material information relating to the valuation of the Company and the process leading to the approval of the proposed merger. The consolidated amended petition seeks a judgment declaring that Triad and its directors breached their fiduciary duties to plaintiffs, enjoining Triad and its directors from executing the merger with CHS, indemnifying plaintiffs, and awarding plaintiffs attorneys' fees and costs. Plaintiff's counsel in the consolidated action had advised our counsel of plaintiffs' intention to conduct discovery and to file a motion for a temporary injunction by May 24, 2007; however, plaintiff's counsel have since informed us and the court that plaintiffs do not intend to seek an injunction, and the hearing that had previously been scheduled for June 7, 2007 for this purpose was removed from the court's docket.

False Claims Act Litigation

As a result of our ongoing discussions with the government prior to our merger with Quorum Health Group, Inc., or Quorum, on April 27, 2001, Quorum learned of two *qui tam* complaints against it alleging violations of the

NOTE 11—CONTINGENCIES (continued)

False Claims Act for claims allegedly submitted to the government involving two managed hospitals. Quorum accrued the estimated liability on these items prior to the merger and the matter remains under seal. The government has requested that Quorum conduct a self audit with respect to one Medicare cost report for one managed hospital and three other specific issues. The government has stated that it intends to investigate certain other allegations.

On September 9, 2003, we were served with a *qui tam* complaint alleging, among other things, the submission of false claims for reimbursement and improper allocation of costs at a hospital in Mississippi managed by Quorum Health Resources, LLC, or QHR, which is named as an additional defendant. The Federal government has apparently elected not to intervene in the case and the complaint was unsealed. We are vigorously defending this matter and have filed a motion to dismiss, which is pending before the court. While we currently believe that we have no liability for any of the claims alleged in the complaint, discovery has not been completed and at this time we cannot predict the final effect or outcome of the complaint.

On May 18, 2004, we were served with a *qui tam* complaint alleging, among other things, the submission of false claims for reimbursement at two hospitals in Georgia formerly managed by QHR. This case was dismissed on October 27, 2005. The plaintiff appealed the dismissal, and we are vigorously contesting the appeal.

On April 26, 2005, we received a copy of a *qui tam* complaint alleging, among other things, the submission of false claims for reimbursement at a hospital in Pennsylvania managed by QHR. The Federal government elected not to intervene in this case and the complaint was recently unsealed. While we intend to vigorously defend this matter, we are not yet able to form a view as to the probable liability for any of the claims alleged in the complaint.

Our merger agreement with Quorum will not provide indemnification in respect of the *qui tam* complaints and investigations described above. If we incur material liabilities as a result of *qui tam* litigation or governmental investigation, these matters could have a material adverse effect on our business, financial condition, results of operations or prospects.

At this time we cannot predict the final effect or outcome of the ongoing investigations or *qui tam* actions. If violations of Federal or state laws relating to Medicare, Medicaid or other government programs are found, then we may be required to pay substantial fines and civil and criminal damages and also may be excluded from participation in the Medicare and Medicaid programs and other government programs. Similarly, the amount of damages sought in the *qui tam* actions or in the future may be substantial. We could be subject to substantial costs resulting from defending, or from an adverse outcome in, any current or future investigations, administrative proceedings or litigation. In an effort to resolve one or more of these matters, we may choose to negotiate a settlement. Amounts paid to settle any of these matters may be material. Agreements entered into as a part of any settlement could also materially adversely affect us. Any current or future investigations or actions could have a material adverse effect on our results of operations or financial position.

From time to time we may be the subject of additional investigations or a party to additional litigation, including *qui tam* actions, alleging violations of law. We may not know about those investigations or about *qui tam* actions filed against us unless and to the extent such matters are unsealed. If any of those matters were successfully asserted against us, there could be a material adverse effect on our business, financial position, results of operations or prospects.

Income Taxes

The Internal Revenue Services, or IRS, has concluded conducting an examination of the Federal income tax returns for our short taxable years ended April 27, 2001, June 30, 2001 and December 31, 2001, and the taxable years ended December 31, 2002 and 2003. On May 10, 2006, the IRS issued an examination report, known as a 30-Day Letter, with proposed adjustments disallowing deductions for portions of the payments made to the Federal government in settlement of certain *qui tam* complaints that had been brought against Quorum. The total proposed adjustments with respect to the settlement payment deductions, if sustained, would increase taxable income in the amount of approximately $67.3 million and result in our payment of additional cash taxes of approximately $24.9

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to "we," "our," "us" and "the Company" refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

NOTE 11—CONTINGENCIES (continued)

million. Any cash taxes paid resulting from the proposed adjustments in excess of the tax reserve previously established would increase goodwill from the acquisition of Quorum.

We believe our reporting of the deductions with respect to the settlement of the three *qui tam* cases was appropriate. Accordingly, on June 9, 2006, we filed a protest to the 30-Day Letter to contest the proposed adjustments and the matter has since been referred to the IRS Appeals Office. In the opinion of management, even if the IRS proposed adjustments were sustained, the adjustments would not have a material effect on our results of operations or financial position.

General Liability Claims

QHR, The Intensive Resource Group, LLC, or IRG, a subsidiary of QHR, and we are defendants against claims for breach of an employment contract filed in a lawsuit involving a former employee of Cambio Health Solutions, a former subsidiary of IRG. QHR, IRG and we have been vigorously defending the claim. On May 13, 2004, a jury returned a verdict against QHR, IRG, and us and on June 8, 2004, the court entered a judgment on such verdict in the aggregate amount of approximately $5.9 million. QHR, IRG and we appealed such judgment. We had reserved $5.9 million in respect of this judgment. In March 2007, we learned that our appeal was unsuccessful and we paid $6.2 million on the judgment, which includes approximately $0.3 million in accrued interest.

We are subject to claims and suits arising in the ordinary course of business, including claims for personal injuries or wrongful restriction of, or interference with, physicians' staff privileges. In certain of these actions the claimants may seek punitive damages against us, which are usually not covered by insurance. It is management's opinion that the ultimate resolution of these pending claims and legal proceedings will not have a material adverse effect on our results of operations or financial position.

NOTE 12—COSTS OF SALES

The following tables show the line items in the condensed consolidated statements of operations that are considered costs of sales (dollars in millions):

	For the three months ended June 30, 2007		
	Total Expenses	General and Administrative Expenses	Costs of Sales
Salaries and benefits	$ 615.6	$ 19.1	$ 596.5
Reimbursable expenses	11.9	—	11.9
Supplies	251.5	—	251.5
Other operating expenses	306.0	24.1	281.9
Provision for doubtful accounts	155.4	—	155.4
Depreciation	60.2	0.9	59.3
Amortization	1.9	—	1.9
Total	$ 1,402.5	$ 44.1	$ 1,358.4

	For the three months ended June 30, 2006		
	Total Expenses	General and Administrative Expenses	Costs of Sales
Salaries and benefits	$ 553.9	$ 19.0	$ 534.9
Reimbursable expenses	12.3	—	12.3
Supplies	234.5	0.1	234.4
Other operating expenses	272.3	13.4	258.9
Provision for doubtful accounts	128.2	—	128.2
Depreciation	55.5	0.7	54.8
Amortization	2.1	—	2.1
Total	$ 1,258.8	$ 33.2	$ 1,225.6

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to "we," "our," "us" and "the Company" refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

NOTE 12—COSTS OF SALES (continued)

	For the six months ended June 30, 2007		
	Total Expenses	General and Administrative Expenses	Costs of Sales
Salaries and benefits	$ 1,230.6	$ 39.8	$ 1,190.8
Reimbursable expenses	24.6	—	24.6
Supplies	505.7	0.1	505.6
Other operating expenses	610.3	45.0	565.3
Provision for doubtful accounts	303.5	—	303.5
Depreciation	119.4	1.8	117.6
Amortization	3.9	—	3.9
Total	$ 2,798.0	$ 86.7	$ 2,711.3

	For the six months ended June 30, 2006		
	Total Expenses	General and Administrative Expenses	Costs of Sales
Salaries and benefits	$ 1,111.4	$ 38.3	$ 1,073.1
Reimbursable expenses	26.0	—	26.0
Supplies	471.7	0.2	471.5
Other operating expenses	525.4	21.4	504.0
Provision for doubtful accounts	248.9	—	248.9
Depreciation	108.8	1.5	107.3
Amortization	3.6	—	3.6
Total	$ 2,495.8	$ 61.4	$ 2,434.4

NOTE 13—RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157 "Fair Value Measurements", or SFAS 157, which is effective for fiscal years beginning after November 15, 2007, with early adoption encouraged. This statement provides a single definition of fair value, establishes a framework for measuring fair value, and expands disclosures concerning fair value measurements. We do not anticipate a material impact on our results of operations or financial position from the adoption of SFAS 157.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)", or SFAS 158, which was effective for fiscal years ending after December 15, 2006. SFAS 158 requires recognition of defined benefit plan funding status, including gains or losses on plan assets, prior service costs and transition assets or obligations, and recognizes changes in the funding status of those plans in the plan sponsors financial statements. Changes in the funding status will be reported in comprehensive income. Additional footnote disclosures about certain effects on net periodic benefit costs for the next fiscal year that arise from delayed recognition of gains or losses on plan assets, prior service costs and transition assets or obligations are also required. We adopted these provisions of SFAS 158 on December 15, 2006. SFAS 158 also requires the measurement of plan assets and obligations as of the date of the plan sponsor's fiscal year end. This provision of SFAS 158 is effective for fiscal years ending after December 15, 2008. We do not anticipate a material impact on our results of operations or financial position from the adoption of this provision of SFAS 158.

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities", or SFAS 159, which is effective for financial statements beginning after November 15, 2007, with early adoption permitted. The statement permits entities to choose to measure many financial instruments and certain other items at fair value. The unrealized gains and losses on items for which the fair value option has been elected would be reported in earnings.

Unless the context requires otherwise, references in these consolidated financial statements and accompanying notes of Triad Hospitals, Inc. to "we," "our," "us" and "the Company" refer to Triad Hospitals, Inc. and its consolidated subsidiaries.

NOTE 13—RECENT ACCOUNTING PRONOUNCEMENTS (continued)

The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. We have not evaluated all of the provisions of SFAS 159, but we do not anticipate a material impact on our results of operations or financial position from the adoption of SFAS 159.

NOTE 14—SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

On July 25, 2007, the Company was acquired by Community Health Systems, Inc. ("CHS"). In connection with this transaction, a wholly owned subsidiary of CHS issued 8.875% Senior Notes maturing in 2015 (the "Notes"). Along with other subsidiaries of CHS, Triad and certain of its direct and indirect 100% owned subsidiaries have fully and unconditionally guaranteed those Notes. The guarantees are also joint and several. The following condensed consolidating financial statements present the subsidiary guarantors, subsidiary non-guarantors, eliminations and consolidated Triad as defined in the terms of the Notes.

14. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)

Triad Hospitals, Inc.
Condensed Consolidating Balance Sheet
June 30, 2007
(Amounts in millions)

	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
Assets				
Current Assets				
Cash and cash equivalents	$ 4.4	$ 58.8	$ —	$ 63.2
Accounts receivable, less allowance for doubtful accounts	523.9	455.5	—	979.4
Inventories	74.1	78.6	—	152.7
Deferred income taxes	41.6	—	—	41.6
Prepaid expenses	14.7	34.2	—	48.9
Other	42.1	59.4	(0.6)	100.9
	700.8	686.5	(0.6)	1,386.7
Property and equipment, at cost	2,263.7	2,246.4	—	4,510.1
Accumulated depreciation	(772.8)	(568.3)	—	(1,341.1)
	1,490.9	1,678.1	—	3,169.0
Investment in subsidiaries	3,144.8	—	(3,144.8)	—
Goodwill	1,028.3	337.5	—	1,365.8
Intangible assets, net of accumulated amortization	60.9	16.3	—	77.2
Due from affiliates	—	735.2	(735.2)	—
Investments in and advances to unconsolidated affiliates	256.5	3.7	—	260.2
Other assets	103.2	221.1	(204.0)	120.3
Total assets	$ 6,785.4	$ 3,678.4	$ (4,084.6)	$ 6,379.2
Liabilities and Equity				
Current Liabilities				
Accounts payable	$ 99.1	$ 146.0	$ —	$ 245.1
Accrued salaries	66.0	79.7	—	145.7
Current portion of long term debt	25.8	1.7	(0.6)	26.9
Current income taxes payable	39.5	—	—	39.5
Other current liabilities	78.1	123.9	—	202.0
	308.5	351.3	(0.6)	659.2
Due to affiliates	735.2	—	(735.2)	—
Long-term debt	1,857.0	17.6	(204.0)	1,670.6
Deferred income taxes	172.2	—	—	172.2
Other liabilities	37.1	164.7	—	201.8
Minority interests in equity of consolidated entities	339.1	—	—	339.1
Stockholders’ equity	3,336.3	3,144.8	(3,144.8)	3,336.3
Total liabilities and stockholders’ equity	$ 6,785.4	$ 3,678.4	$ (4,084.6)	$ 6,379.2

14. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)

Triad Hospitals, Inc.
Condensed Consolidating Balance Sheet
December 31, 2006
(Amounts in millions)

	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets				
Current Assets				
Cash and cash equivalents	$ 4.8	203.8	—	$ 208.6
Accounts receivable, less allowance for doubtful accounts	521.2	396.7	—	917.9
Inventories	79.5	69.9	—	149.4
Deferred income taxes	38.4	—	—	38.4
Prepaid expenses	14.7	37.4	—	52.1
Other	72.7	57.4	(2.1)	128.0
	731.3	765.2	(2.1)	1,494.4
Property and equipment, at cost	2,249.0	1,918.9	—	4,167.9
Accumulated depreciation	(747.5)	(480.2)	—	(1,227.7)
	1,501.5	1,438.7	—	2,940.2
Investments in subsidiaries	2,846.3	—	(2,846.3)	—
Goodwill	1,101.1	258.6	—	1,359.7
Intangible assets, net of accumulated amortization	58.3	22.8	—	81.1
Due from affiliates	—	586.9	(586.9)	—
Investments in and advances to unconsolidated affiliates	239.3	3.6	—	242.9
Other assets	107.5	272.2	(264.2)	115.5
Total assets	$ 6,585.3	$ 3,348.0	$ (3,699.5)	$ 6,233.8
Liabilities and Equity				
Current Liabilities				
Accounts payable	110.9	138.9	—	249.8
Accrued salaries	62.6	64.4	—	127.0
Current portion of long term debt	19.8	3.6	(2.1)	21.3
Current income taxes payable	—	—	—	—
Other current liabilities	83.5	119.9	—	203.4
	276.8	326.8	(2.1)	601.5
Due to affiliates	586.9	—	(586.9)	—
Long-term debt	1,930.6	17.7	(264.2)	1,684.1
Deferred income taxes	193.5	—	—	193.5
Other liabilities	30.3	157.2	—	187.5
Minority interests in equity of consolidated entities	340.8	—	—	340.8
Equity	3,226.4	2,846.3	(2,846.3)	3,226.4
Total liabilities and stockholders' equity	$ 6,585.3	$ 3,348.0	$ (3,699.5)	$ 6,233.8

14. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)

Triad Hospitals, Inc.
Condensed Consolidating Statement of Income
For the six months ended June 30, 2007
Unaudited
(Amounts in millions)

	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ 1,475.0	$ 1,500.9	$ —	$ 2,975.9
Salaries and benefits, including share-based compensation expense	535.8	694.8	—	1,230.6
Reimbursable expenses	24.6	—	—	24.6
Supplies	240.7	265.0	—	505.7
Other operating expenses	275.6	334.7	—	610.3
Provision for doubtful accounts	157.0	146.5	—	303.5
Depreciation	56.5	62.9	—	119.4
Amortization	3.0	0.9	—	3.9
Interest expense allocated	63.6	(63.6)	—	—
Interest expense, net of capitalized interest	53.6	0.3	—	53.9
Interest income	(1.1)	(4.6)	—	(5.7)
ESOP expense	7.5	—	—	7.5
Management fees	43.6	(43.6)	—	—
Loss on sale of assets	0.2	0.2	—	0.4
	1,460.6	1,393.5	—	2,854.1
Income from continuing operations before minority interests, equity in earnings and income tax provision	14.4	107.4	—	121.8
Minority interests in earnings of consolidated entities	(12.8)	—	—	(12.8)
Equity in earnings of unconsolidated affiliates	130.6	0.1	(107.1)	23.6
Income from continuing operations before income tax provision	132.2	107.5	(107.1)	132.6
Income tax provision	(60.7)	—	—	(60.7)
Income from continuing operations	71.5	107.5	(107.1)	71.9
Loss from discontinued operations, net of tax	—	(0.4)	—	(0.4)
Net income	$ 71.5	$ 107.1	$ (107.1)	$ 71.5

14. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)

Triad Hospitals, Inc.
Condensed Consolidating Statement of Income
For the six months ended June 30, 2006
Unaudited
(Amounts in millions)

	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ 1,499.9	$ 1,247.4	$ —	$ 2,747.3
Salaries and benefits, including share-based compensation expense	537.4	574.0	—	1,111.4
Reimbursable expenses	26.0	—	—	26.0
Supplies	240.6	231.1	—	471.7
Other operating expenses	248.1	277.3	—	525.4
Provision for doubtful accounts	142.6	106.3	—	248.9
Depreciation	59.6	49.2	—	108.8
Amortization	2.9	0.7	—	3.6
Interest expense allocated	(10.8)	10.8	—	—
Interest expense, net of capitalized interest	60.1	(2.5)	—	57.6
Interest income	(1.0)	(9.2)	—	(10.2)
ESOP expense	6.1	—	—	6.1
Management fees	45.2	(45.2)	—	—
Gain sale of assets	(0.1)	(0.5)	—	(0.6)
	1,356.7	1,192.0	—	2,548.7
Income from continuing operations before minority interests, equity in earnings and income tax provision	143.2	55.4	—	198.6
Minority interests in earnings of consolidated entities	(10.0)	—	—	(10.0)
Equity in earnings of unconsolidated affiliates	90.5	0.3	(71.0)	19.8
Income from continuing operations before income tax provision	223.7	55.7	(71.0)	208.4
Income tax provision	(80.5)	—	—	(80.5)
Income from continuing operations	143.2	55.7	(71.0)	127.9
Income from discontinued operations, net of tax	—	15.3	—	15.3
Net income	$ 143.2	$ 71.0	$ (71.0)	$ 143.2

14. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)

Triad Hospitals, Inc.
Condensed Consolidating Statement of Cash Flow
For the six months ended June 30, 2007
(Amounts in millions)

	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities				
Net income	$ 71.5	$ 107.1	$ (107.1)	$ 71.5
Adjustments to reconcile net income to net cash provided by operating activities:				
Loss for discontinued operations, net of tax	—	0.4	—	0.4
Provision for doubtful accounts	157.0	146.5	—	303.5
Depreciation and amortization	59.5	63.8	—	123.3
ESOP expense	7.5	—	—	7.5
Minority interests	12.8	—	—	12.8
Equity in earnings of unconsolidated affiliates	(130.6)	(0.1)	107.1	(23.6)
Loss on sale of assets	0.2	0.2	—	0.4
Deferred income taxes benefit	(10.4)	—	—	(10.4)
Non-cash interest expense	1.7	—	—	1.7
Non-cash share based compensation	16.0	—	—	16.0
Excess tax benefits on share-based compensation	(1.5)	—	—	(1.5)
Increase (decrease) in cash from operating assets and liabilities (net of acquisitions)				
Accounts receivable	(159.7)	(205.3)	—	(365.0)
Inventories and other assets	21.7	(2.2)	—	19.5
Accounts payable and other current liabilities	45.2	6.7	—	51.9
Other	0.4	7.4		7.8
Net cash provided by (used in) operating activities	91.3	124.5	—	215.8
Cash flows from investing activities				
Purchases of property and equipment	(50.1)	(300.0)	—	(350.1)
Distributions and advances from unconsolidated affiliates	6.3	—	—	6.3
Investment in and advances to consolidated affiliates	(212.1)	212.1	—	—
Proceeds received on disposals of assets	0.9	1.3	—	2.2
Acquisitions, net of cash acquired	(3.4)	(30.0)	—	(33.4)
Other	63.8	(63.8)	—	—
Net cash provided by (used in) investing activities	(194.6)	(180.4)	—	(375.0)
Cash flows from financing activities				
Payments of long-term debt	(67.5)	59.7	—	(7.8)
Proceeds from issuance of common stock	16.5	—	—	16.5
Excess tax benefits on share-based compensation	1.5	—	—	1.5
Contributions from minority partners, net of distributions	—	6.8	—	6.8
Increase (decrease) in due to (from) affiliate	155.6	(155.6)	—	—
Net cash provided by (used in) financing activities	102.9	(89.1)	—	13.8
Change in cash and cash equivalents	(0.4)	(145.0)	—	(145.4)
Cash and cash equivalents at beginning of period	4.8	203.8	—	208.6
Cash and cash equivalents at end of period	$ 4.4	$ 58.8	$ —	$ 63.2

14. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)

Triad Hospitals
Condensed Consolidating Statement of Cash Flow
For the six-months ended June 30, 2006
(Amounts in millions)

	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities				
Net income	$ 143.2	$ 71.0	$ (71.0)	$ 143.2
Adjustments to reconcile net income to net cash provided by operating activities:				
Income for discontinued operations, net of tax	—	(15.3)	—	(15.3)
Provision for doubtful accounts	142.6	106.3	—	248.9
Depreciation and amortization	62.5	49.9	—	112.4
ESOP expense	6.1	—	—	6.1
Minority interests	10.0	—	—	10.0
Equity in earnings of unconsolidated affiliates	(90.5)	(0.3)	71.0	(19.8)
Gain on sale of assets	(0.1)	(0.5)	—	(0.6)
Deferred income taxes benefit	(11.7)	—	—	(11.7)
Non-cash interest expense	1.6	—	—	1.6
Non-cash share based compensation	13.7	—	—	13.7
Excess tax benefits on share-based compensation	(1.2)	—	—	(1.2)
Increase (decrease) in cash from operating assets and liabilities (net of acquisitions)				
Accounts receivable	(184.7)	(137.0)	—	(321.7)
Inventories and other assets	(1.5)	(21.0)	—	(22.5)
Accounts payable and other current liabilities	(39.1)	7.2	—	(31.9)
Other	(1.0)	22.7	—	21.7
Net cash provided by operating activities	49.9	83.0	—	132.9
Cash flows from investing activities				
Purchases of property and equipment	(56.4)	(177.0)	—	(233.4)
Distributions and advances from unconsolidated affiliates	(9.9)	0.3	—	(9.6)
Investment in and advances to consolidated affiliates	(243.1)	243.1	—	—
Proceeds received on disposals of assets	1.1	101.5	—	102.6
Acquisitions, net of cash acquired	—	(49.2)	—	(49.2)
Other	0.7	(0.8)	—	(0.1)
Net cash provided by (used in) investing activities	(307.6)	117.9	—	(189.7)
Cash flows from financing activities				
Payments of long-term debt	118.3	(119.3)	—	(1.0)
Proceeds from long-term debt	—	—	—	—
Proceeds from issuance of common stock	21.9	—	—	21.9
Excess tax benefits on share-based compensation	1.2	—	—	2
Contributions from minority partners, net of distributions	—	0.5	—	0.5
Net borrowings to (from) affiliate	—	—	—	—
Increase (decrease) in due to (from) affiliate	111.5	(111.5)	—	—
Net cash provided by (used in) financing activities	252.9	(230.3)	—	22.6
Change in cash and cash equivalents	(4.8)	(29.4)	—	(34.2)
Cash and cash equivalents at beginning of period	6.4	303.8	—	310.2
Cash and cash equivalents at end of period	$ 1.6	$ 274.4	$ —	$ 276.0