CEVA INC
Form 10-Q
May 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2018

OR

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

For the transition period from ________ to ________

Commission file number: 000-49842

CEVA, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware **(State or Other Jurisdiction of** **Incorporation or Organization)**	**77-0556376** **(I.R.S. Employer** **Identification No.)**
1174 Castro Street, Suite 210, Mountain View, California **(Address of Principal Executive Offices)**	**94040** **(Zip Code)**

(650) 417-7900

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer , accelerated filer , smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period of complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date: 22,221,045 of common stock, $0.001 par value, as of May 2, 2018.

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FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This Quarterly Report contains forward-looking statements that involve risks and uncertainties, as well as assumptions that if they materialize or prove incorrect, could cause the results of CEVA to differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. Forward-looking statements are generally written in the future tense and/or are preceded by words such as will, may, should, could, expect, suggest, believe, intend, plan, or other similar words. Forward-looking statements include the following:

- Our belief that the adoption of our signal processing platform and artificial intelligence processors outside of the cellular baseband market continues to progress;
- Our belief that we may benefit from the handset market transitioning from feature phones to LTE smartphones , if and when it occurs, particularly in emerging economies;
- Our belief that we may benefit from the base station chip ramp up in coming years, as a large customer of ours is forecasted to start ramping up production in the second half of 2018;
- Our belief that our Bluetooth and Wi-Fi IPs allow us to expand further into IoT applications and increase our overall addressable market which is expected to be 35 billion devices by 2020, as per ABI Research;
- Our belief that our proven track record in audio/voice processing and the growing market potential for voice assisted services offer an additional market opportunity for the company in voice enabled devices such as smartphones, headsets, earbuds, smart speakers, smart home and automotive;
- Our belief that our specialization and competitive edge in signal processing platforms for next generation long and short range wireless such as 5G, NB-IoT, 802.11ac and 802.11ax technologies, and the inherent low cost, power and performance balance of our designs, put us in a strong position to simultaneously capitalize on mass market adoption of such technologies and address multiple markets and product sectors;
- Our belief that our vision processing IPs, neural net software and the newly announced AI processor, offer additional growth potentials and value in both licensing and royalty revenues in segments such as smartphones, drones, surveillance, consumer cameras, automotive ADAS and industrial IoT applications;

Per ABI Research, cameras equipped with vision processing are expected to exceed 2.7 billion units by 2018;

Our belief that the market opportunity for AI at the edge is on top of our existing product lines and represents a new licensing and royalty driver for the company in the coming years;

Our belief that royalty revenue growth in the next few years for non-handset baseband applications will be a combination of higher unit shipments of Bluetooth and other connectivity products that bear lower ASPs, along with higher ASPs driven by base station and vision products;

Our belief that our licensing business is progressing well with strong interest, diverse customer base and a myriad of target markets;

Our anticipation that our cash and cash equivalents, short-term bank deposits and marketable securities, along with cash from operations, will provide sufficient capital to fund our operations for at least the next 12 months; and

Our belief that changes in interest rates within our investment portfolio will not have a material effect on our financial position on an annual or quarterly basis.

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Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. The forward-looking statements contained in this report are based on information that is currently available to us and expectations and assumptions that we deem reasonable at the time the statements were made. We do not undertake any obligation to update any forward-looking statements in this report or in any of our other communications, except as required by law. All such forward-looking statements should be read as of the time the statements were made and with the recognition that these forward-looking statements may not be complete or accurate at a later date.

Many factors may cause actual results to differ materially from those expressed or implied by the forward-looking statements contained in this report. These factors include, but are not limited to, those risks set forth in Part II Item 1A Risk Factors of this Form 10-Q.

This report contains market data prepared by third party research firm. Actual market results may differ from their projections.

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS
INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share and per share data

	March 31, 2018 Unaudited	December 31, 2017 Audited
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,382	$ 21,739
Short term bank deposits	33,269	34,432
Marketable securities	85,212	82,664
Trade receivables	13,902	14,480
Accrued revenues	9,425	2,014
Prepaid expenses and other current assets	4,136	3,747
Total current assets	164,326	159,076
Long term bank deposits	45,967	44,518
Severance pay fund	9,086	8,910
Deferred tax assets	4,085	3,643
Property and equipment, net	6,805	6,926
Goodwill	46,612	46,612
Intangible assets, net	3,583	1,742
Investments in other company	1,806	1,806
Other long-term assets	4,272	3,579
Total long-term assets	122,216	117,736
Total assets	$ 286,542	$ 276,812
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade payables	$ 499	$ 392
Deferred revenues	4,973	4,399
Accrued expenses and other payables	4,113	3,927
Accrued payroll and related benefits	13,958	14,077
Total current liabilities	23,543	22,795

Long term liabilities:		
Accrued severance pay	9,784	9,347
Other long term liabilities	400	
Total long-term liabilities	10,184	9,347
Stockholders equity:		
Preferred Stock:		
$0.001 par value: 5,000,000 shares authorized; none issued and outstanding		
Common Stock:		
$0.001 par value: 60,000,000 shares authorized; 23,595,160 shares issued at March 31, 2018 (unaudited) and December 31, 2017. 22,220,608 and 22,064,007 shares outstanding at March 31, 2018 (unaudited) and December 31, 2017, respectively	22	22
Additional paid in-capital	217,923	217,417
Treasury stock at cost (1,374,552 and 1,531,153 shares of common stock at March 31, 2018 (unaudited) and December 31, 2017, respectively)	(24,146)	(26,056)
Accumulated other comprehensive loss	(1,188)	(586)
Retained earnings	60,204	53,873
Total stockholders equity	252,815	244,670
Total liabilities and stockholders equity	$ 286,542	$ 276,812

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

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

U.S. dollars in thousands, except per share data

	Three months ended March 31,	
	2018	**2017**
Revenues:		
Licensing and related revenue	$ 10,083	$ 9,535
Royalties	7,486	11,752
Total revenues	17,569	21,287
Cost of revenues	1,972	1,696
Gross profit	15,597	19,591
Operating expenses:		
Research and development, net	12,016	9,873
Sales and marketing	3,176	2,938
General and administrative	2,954	2,125
Amortization of intangible assets	359	309
Total operating expenses	18,505	15,245
Operating income (loss)	(2,908)	4,346
Financial income, net	927	571
Income (loss) before taxes on income	(1,981)	4,917
Income taxes	201	810
Net income (loss)	$ (2,182)	$ 4,107
Basic net income (loss) per share	$ (0.10)	$ 0.19
Diluted net income (loss) per share	$ (0.10)	$ 0.19
Weighted-average shares used to compute net income (loss) per share (in thousands):		
Basic	22,148	21,398
Diluted	22,148	22,187

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

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

U.S. dollars in thousands

	Three months ended March 31,	
	2018	**2017**
Net income (loss):	$ (2,182)	$ 4,107
Other comprehensive income (loss) before tax:		
Available-for-sale securities:		
Changes in unrealized losses	(680)	169
Reclassification adjustments for (gains) losses included in net income	(4)	38
Net change	(684)	207
Cash flow hedges:		
Changes in unrealized gains (losses)	(24)	182
Reclassification adjustments for (gains) losses included in net income	19	(146)
Net change	(5)	36
Other comprehensive income (loss) before tax	(689)	243
Income tax expense (benefit) related to components of other comprehensive income (loss)	(87)	35
Other comprehensive income (loss), net of taxes	(602)	208
Comprehensive income (loss)	$ (2,784)	$ 4,315

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

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

U.S. dollars in thousands

	Three months ended March 31, 2018	2017
Cash flows from operating activities:		
Net income (loss)	$ (2,182)	$ 4,107
Adjustments required to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	576	443
Amortization of intangible assets	359	309
Equity-based compensation	2,771	1,949
Realized (gain) loss, net on sale of available-for-sale marketable securities	(4)	38
Amortization of premiums on available-for-sale marketable securities	236	304
Unrealized foreign exchange)gain(loss	(73)	27
Changes in operating assets and liabilities:		
Trade receivables and accrued revenues	2,366	1,266
Prepaid expenses and other assets	(1,619)	(1,738)
Accrued interest on bank deposits	(326)	114
Deferred tax, net	(355)	(355)
Trade payables	102	(220)
Deferred revenues	574	25
Accrued expenses and other payables	(780)	(151)
Accrued payroll and related benefits	(129)	63
Accrued severance pay, net	267	108
Net cash provided by operating activities	1,783	6,289
Cash flows from investing activities:		
Purchase of property and equipment	(455)	(1,435)
Purchase and capitalization of intangible assets	(850)	
Investment in bank deposits	(1,286)	(21,000)
Proceeds from bank deposits	1,298	10,500
Investment in available-for-sale marketable securities	(9,505)	(10,696)
Proceeds from maturity of available-for-sale marketable securities	3,762	2,243

Proceeds from sale of available-for-sale marketable securities	2,279	5,931
Net cash used in investing activities	(4,757)	(14,457)
Cash flows from financing activities:		
Purchase of treasury stock	(1,459)	
Proceeds from exercise of stock-based awards	1,062	2,363
Net cash provided by (used in) financing activities		

Beneficial Ownership of Triad Common Stock

Name	Number of Outstanding Shares (1)	Number of Shares Underlying Options (2)	Percent of Class (3)
William L. Anderson	11,340(4)	55,500	*
Nancy-Ann DeParle	2,100	31,375	*
Barbara A. Durand, R.N., Ed.D.	2,926	34,375	*
Thomas F. Frist III	328,288(5)	55,375	*
Donald B. Halverstadt, M.D.	2,463	29,375	*
William J. Hibbitt			*
Michael K. Jhin			

2,000 5,000 *

Dale V. Kesler

3,746 41,375 *

Thomas G. Loeffler, Esq.

2,926 14,000 *

Nicholas J. Marzocco

21,286(4) 75,500 *

Harriet R. Michel

2,000 5,000 *

Daniel J. Moen

33,681(4)(6) 197,500 *

Michael J. Parsons

71,049(4) 308,715 *

Uwe E. Reinhardt, Ph.D.

2,000 55,375 *

Gale E. Sayers

3,926 12,125 *

James D. Shelton

402,149(4) 721,909 1.3%

All Current Directors and Current Executive Officers as a Group (23 persons)

1,028,940(7) 2,262,887 3.8%

Barclays Global Investors, NA (8)

Barclays Global Fund Advisors (8)

Barclays Global Investors, Ltd. (8)

Barclays Global Investors Japan Trust and Banking Company Limited (8)

4,541,345(9) 5.2%

Equinox Capital Management, LLC (10)

Equinox Capital Management, Inc. (10)		
Ronald J. Ulrich (10)		
	4,962,309(11)	5.7%
T. Rowe Price Associates, Inc. (12)		
	4,395,846(13)	5.0%
Vanguard Windsor Funds Vanguard Windsor II Fund (14)		
	4,384,995(15)	5.0%

* Less than 1%

(1) The shares reported in this column include any restricted shares held as of February 14, 2006, by the current directors and current executive officers, as appropriate.

(2) Amounts reported in this column reflect shares subject to stock options that, as of February 14, 2006, were unexercised but were exercisable within a period of 60 days from that date. These shares are excluded from the column headed Number of Outstanding Shares ; however, these shares are deemed to be outstanding for the purpose of computing the percentage beneficially owned by each respective person but not the percentage beneficially owned by any other person or group. Amounts reported in this column do not include any deferred stock units held by the named executive officers and directors as of February 14, 2006.

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None of the current directors or current executive officers holds deferred stock units that can be settled within a period of 60 days from February 14, 2006.

(3) Percentages are calculated based on the outstanding shares of Triad common stock as of February 14, 2006, at which date there were 87,284,305 shares of Triad common stock outstanding.

(4) This includes shares held through the Triad Hospitals, Inc. Retirement Savings Plan as of December 31, 2005.

(5) Of the shares reported, Mr. Frist has shared voting and investment power with respect to 115,486 shares held by a family corporation in which he is a shareholder, and 26,278 shares held by a family limited partnership in which he is a general partner.

(6) Of the shares reported for Mr. Moen, 93 shares are held in family trusts. Mr. Moen disclaims beneficial ownership of these 93 shares.

(7) This contains information set forth in footnote numbers (1), (4), (5) and (6).

(8) The address for Barclays Global Investors, NA and Barclays Global Fund Advisors is 45 Fremont Street, San Francisco, California, 94105; the address for Barclays Global Investors, Ltd. is Murray House, 1 Royal Mint Court, London, EC3N 4HH England; and the address for Barclays Global Investors Japan Trust and Banking Company Limited is Ebisu Prime Square Tower, 8th Floor, 1-1-39 Hiroo Shibuya-Ku, Tokyo 150-0012 Japan.

(9) This information is based on a Schedule 13G filed with the Securities and Exchange Commission on January 27, 2006, by Barclays Global Investors, NA. According to the Schedule 13G, Barclays Global Investors, NA, a bank, has sole voting power and sole dispositive power with respect to 2,803,544 and 3,268,293 of such shares, respectively; Barclays Global Fund Advisors, an investment advisor, has sole voting power and sole dispositive power with respect to 973,927 and 977,555 of such shares, respectively; Barclays Global Investors, Ltd., a bank, has sole voting power and sole dispositive power with respect to 204,274 and 221,652 of such shares, respectively; and Barclays Global Investors Japan Trust and Banking Company Limited, a bank, has sole voting power and sole dispositive power with respect to 73,845 of such shares.

(10) The address for Equinox Capital Management, LLC (Equinox LLC), Equinox Capital Management, Inc. (Equinox Inc.) and Ronald J. Ulrich is 590 Madison Avenue, New York, New York 10022.

(11) This information is based on a Schedule 13G filed with the Securities and Exchange Commission on February 9, 2006, which was jointly filed by Equinox LLC, Equinox Inc. and Mr. Ulrich. According to the Schedule 13G, each of Equinox LLC, Equinox Inc. and Mr. Ulrich beneficially owns all of the reported shares. Mr. Ulrich is the president of Equinox Inc., which serves as the managing member of Equinox LLC, which serves as a registered investment adviser to certain funds and managed accounts that directly own all of the reported shares. Each of Equinox LLC, Equinox Inc. and Mr. Ulrich has sole voting power with respect to 868,861 of such shares and shared dispositive power with respect to all of such shares.

(12) The address for T. Rowe Price Associates, Inc. (Price Associates) is 100 E. Pratt Street, Baltimore, Maryland 21202.

(13) This information is based on a Schedule 13G filed with the Securities and Exchange Commission on February 13, 2006, by Price Associates. According to the Schedule 13G, Price Associates (i) is deemed to be a beneficial owner of such shares as investment adviser to various individual and institutional investors that own the shares and (ii) has sole voting power with respect to 1,038,681 of such shares and sole dispositive power with respect to all of such shares. Price Associates expressly disclaims any beneficial ownership of such shares.

(14) The address for Vanguard Windsor Funds Vanguard Windsor II Fund (Vanguard) is 100 Vanguard Blvd., Malvern, Pennsylvania 19355.

(15) This information is based on a Schedule 13G filed with the Securities and Exchange Commission on February 13, 2006, by Vanguard. According to the Schedule 13G, Vanguard has sole voting power, but no investment power, with respect to such shares.

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EXECUTIVE COMPENSATION

The following table sets forth certain information concerning the compensation of the named executive officers for each of the Company s last three fiscal years.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation Awards		
Name and Principal Position	Year	Salary ($) (1)	Bonus ($) (2)	Other Annual Compensation ($) (3)	Restricted Stock Awards ($) (4)	Number of Securities Underlying Options	All Other Compensation ($) (5)
James D. Shelton	2005	1,508,558	1,141,875	377,384(6)	4,941,000		13,650
Chairman, President and	2004	1,361,213	1,228,734	125,431(6)		300,000	13,325
Chief Executive Officer	2003	976,240	731,250	78,989(6)		100,000	13,000
Michael J. Parsons	2005	514,679	258,789	2,475(7)		70,000	13,650
Executive Vice President	2004	502,298	283,882			100,000	13,325
and Chief Operating Officer	2003	487,744	243,934			20,000	9,000
Daniel J. Moen	2005	478,107	240,400	3,307(7)	42,039	70,000	19,840
Executive Vice President	2004	466,605	263,709		51,236	80,000	7,175
of Development	2003	453,013	226,600		43,979	20,000	7,000
William L. Anderson	2005	340,366	205,556	244(7)	2,375	30,000	21,815
Division President	2004	330,598	198,605			32,000	9,225
	2003	320,022	102,838			16,000	9,000
Nicholas J. Marzocco	2005	379,536	152,669	1,084(7)		30,000	20,597
Division President	2004	369,718	140,578			32,000	9,225
	2003	358,620	115,125			16,000	9,000

(1) In accordance with the rules of the Securities and Exchange Commission, amounts reported include any amounts by which salary was reduced to purchase restricted shares of Triad common stock pursuant to the Company s Amended and Restated Management Stock Purchase Plan. The value of such restricted stock, less amounts paid by the named executive officer, is reported under the Restricted Stock Awards column of this table.

(2) Amounts reported reflect bonus earned during the fiscal year. In some instances, all or a portion of the bonus was paid during the following fiscal year.

(3) In accordance with the rules of the Securities and Exchange Commission, other annual compensation does not include perquisites for an individual if the aggregate amount of such perquisites for that individual does not exceed the lesser of $50,000 or 10% of such individual s salary and bonus for the applicable fiscal year.

(4) In accordance with the rules of the Securities and Exchange Commission, amounts reported represent the aggregate dollar value of restricted shares of Triad common stock awarded to the named executive officers during the fiscal year, calculated based on the market value on the date of grant, less any amounts paid by the named executive officer. Other than 100,000 restricted shares of Triad common stock awarded to Mr. Shelton on May 24, 2005, the restricted shares of Triad common stock represented in this column were purchased by the named executive officers during the fiscal year pursuant to either the Company s Amended and Restated Management Stock Purchase Plan or former Management Stock Purchase Plan, as applicable. As of December 31, 2005, Messrs. Shelton, Moen and Anderson held an aggregate of 100,000, 13,413 and 759 restricted shares of Triad common stock, respectively. As of December 31, 2005, Messrs. Parsons and Marzocco held no restricted shares of Triad common stock. Pursuant to Securities and Exchange Commission rules, after deducting the consideration paid therefor, the restricted shares held by Messrs. Shelton, Moen and Anderson had a net pre-tax value as of December 31, 2005 of $3,922,000, $177,995 and

$10,068, respectively. Dividends will be payable on restricted shares of Triad common stock if and to the extent paid on Triad common stock generally, regardless of whether or not the restrictions have lapsed.

(5) Amounts reported represent employer contributions on behalf of the named executive officer to the Company s Retirement Savings Plan. Amounts reported for 2005 for Messrs. Moen, Anderson and Marzocco also include employer matching contributions on behalf of the named executive officer to the Company s Deferred Compensation Plan.

(6) The amount reported for Mr. Shelton for 2005 includes (i) $349,206 for personal use of the Company s aircraft; (ii) other executive perquisites, none of which exceeds 25% of the total perquisites reported as other annual compensation; and (iii) $55,395 in gross-up payments for taxes incurred in connection with certain perquisites. The amount reported for Mr. Shelton for 2004 includes $113,867 for personal use of the Company s aircraft, and the amount reported for Mr. Shelton for 2003 includes $57,305 for personal use of the Company s aircraft and $17,342 for legal fees in connection with entering into an employment agreement with Triad.

(7) The amounts reported consist of gross-up payments for taxes incurred in connection with certain perquisites.

Option Grants in 2005 Fiscal Year

The following table provides information related to options granted to the named executive officers during fiscal 2005.

Individual Grants					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Securities Option Term (3)	
Name	**Number of Securities Underlying Options (1)**	**Percent of Total Options Granted to Employees in Fiscal Year**	**Exercise or Base Price ($/sh) (2)**	**Expiration Date**	**5% ($)**	**10% ($)**
James D. Shelton						
Michael J. Parsons	70,000	3.52	42.51	February 2, 2015	1,859,999	4,724,343
Daniel J. Moen	70,000	3.52	42.51	February 2, 2015	1,859,999	4,724,343
William L. Anderson	30,000	1.51	42.51	February 2, 2015	797,143	2,024,719
Nicholas J. Marzocco	30,000	1.51	42.51	February 2, 2015	797,143	2,024,719

(1) The options become exercisable with respect to 25% of the shares covered thereby on the first, second, third and fourth anniversary dates following the date of grant, subject to continued employment with Triad, and become 100% vested upon a change in control (as defined in the Company s 1999 Long-Term Incentive Plan).

(2) The option exercise price is equal to the fair market value of a share of Triad common stock on the date of grant and may be paid in shares of Triad common stock owned by the executive officer, in cash, or a combination thereof.

(3) The potential realizable value portion of the foregoing table illustrates value that might be realized upon exercise of the options immediately prior to the expiration of their term, assuming the specified compounded rates of appreciation on Triad common stock over the term of the options. These amounts do not take into account provisions of the options relating to termination of the option following termination of employment, non-transferability or vesting over periods of up to four years.

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Aggregated Option Exercises in 2005 Fiscal Year and Fiscal Year-End Option Values

The following table provides information related to options exercised by the named executive officers during fiscal 2005 and the number and value of options held at fiscal year end. The Company does not have any outstanding stock appreciation rights.

Name	Number of Shares Acquired on Exercise	Value Realized ($)	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-the-Money Options at Fiscal Year-End ($) (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
James D. Shelton	110,000	3,303,644	569,409	337,500	5,894,553	1,941,750
Michael J. Parsons	158,947	5,140,652	251,465	173,750	3,285,544	543,900
Daniel J. Moen			142,500	152,500	1,323,850	444,000
William L. Anderson	60,000	941,631	26,000	72,000	228,300	266,160
Nicholas J. Marzocco	91,382	2,172,262	46,000	72,000	348,400	266,160

(1) The closing price for Triad common stock, as reported by the New York Stock Exchange, on December 30, 2005, which was the last trading date prior to fiscal year end, was $39.23 per share. Value is calculated on the basis of the positive difference between the option exercise price and $39.23 per share, multiplied by the number of shares of Triad common stock underlying the option.

Supplemental Executive Retirement Plan

Effective as of September 1, 2005, the Board of Directors of the Company adopted a Supplemental Executive Retirement Plan (referred to in this Proxy Statement as the SERP) providing retirement benefits to the Company s Senior Vice Presidents, Executive Vice Presidents, Division Presidents and Chief Executive Officer upon eligible retirement from the Company. Annual retirement benefits under the SERP are computed as 20% of the participant s final average earnings (generally salary and bonus) during the last three completed calendar years prior to a participant s retirement. A participant s normal retirement date is the first day on which the participant has (i) attained age 60, (ii) completed 12 years of service with the Company and its affiliates, and (iii) completed 3 years of service with the Company and its affiliates following the effective date of the SERP. The SERP also provides for benefits under specified circumstances upon a participant s early retirement, death or disability.

Pension Plan Table

The following table shows the estimated maximum annual retirement benefits that would be payable upon normal retirement under the SERP (assuming normal retirement at age 60) at selected compensation levels after various years of service. Amounts are shown on a straight life annuity basis, without any reduction for social security benefits.

Final Average Earnings (1)	Years of Service (2) (3)				
	15	20	25	30	35

$ 400,000	$ 80,000	$ 80,000	$ 80,000	$ 80,000	$ 80,000
600,000	120,000	120,000	120,000	120,000	120,000
800,000	160,000	160,000	160,000	160,000	160,000
1,000,000	200,000	200,000	200,000	200,000	200,000
1,200,000	240,000	240,000	240,000	240,000	240,000
1,400,000	280,000	280,000	280,000	280,000	280,000
1,600,000	320,000	320,000	320,000	320,000	320,000
1,800,000	360,000	360,000	360,000	360,000	360,000
2,000,000	400,000	400,000	400,000	400,000	400,000
2,500,000	500,000	500,000	500,000	500,000	500,000
3,000,000	600,000	600,000	600,000	600,000	600,000

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(1) For purposes of the SERP, Final Average Earnings is computed with reference to the annual base salary and annual bonus compensation paid to the participant in the three completed calendar years prior to retirement. For the named executive officers, the Salary and Bonus columns of the Summary Compensation Table represent amounts earned as salary and bonus in respect of the applicable fiscal year. These amounts differ from the annual base salary and annual bonus compensation actually paid to the named executive officers during the applicable fiscal years, which form the basis of the Final Average Earnings calculation under the SERP. As of December 31, 2005, the Final Average Earnings for Messrs. Shelton, Parsons, Moen, Anderson and Marzocco would have been $2,300,957, $795,927, $739,345, $492,910 and $524,045, respectively.

(2) As of December 31, 2005, Messrs. Shelton, Parsons, Moen, Anderson and Marzocco had 11, 11, 4, 10 and 9 credited years of service with the Company and its affiliates, respectively, for purposes of the SERP.

(3) The estimated annual benefits payable under the SERP are computed as 20% of the participant s Final Average Earnings. Assuming the satisfaction of the applicable vesting requirements under the SERP by a participant upon retirement, such participant will be entitled to a flat annual benefit based on the foregoing formula without regard to the participant s years of service. As a result, the estimated annual benefits payable under the SERP at varying levels of years of service are the same.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

With the exception of Mr. Shelton, the executive officers of the Company have not entered into employment contracts with the Company and are employed at will. The Company s broad-based severance policy, as well as the applicable provisions of (i) award agreements under the Company s Amended and Restated Long-Term Incentive Plan and (ii) the SERP, provide for certain compensatory arrangements in the event of termination of employment or a change in control of the Company. All executive officers and employees of the Company are covered by the Company s severance policy under which, in certain circumstances, an employee whose employment with the Company is involuntarily terminated may receive as a severance benefit up to 52 weeks of salary. In addition, upon the occurrence of a change in control of the Company, (i) all outstanding and unexercised stock options granted under the Company s Amended and Restated Long-Term Incentive Plan will become fully vested and exercisable and the transfer restrictions and forfeiture conditions on any restricted shares granted under such plan will immediately lapse and such shares will become fully vested, pursuant to the applicable award agreement and (ii) plan benefits under the SERP will become fully vested and will be paid once the participant reaches age 55, or if such participant has already reached age 55, immediately upon the occurrence of the change in control, with no reductions for payment before age 60.

The Company entered into an employment agreement with Mr. Shelton on September 1, 2003 for a period of three years. The contract will be automatically renewed on each anniversary thereafter and shall continue for additional one-year terms unless the Company or Mr. Shelton takes specific actions to terminate it. Pursuant to the terms of the agreement, the Company has agreed to employ Mr. Shelton as President and Chief Executive Officer and to use its best efforts to cause him to be a director and Chairman of the Board of Directors of the Company. The agreement provides for a minimum annual salary of $975,000, subject to increase, as well as participation in all incentive compensation plans and programs maintained by the Company and applicable generally to senior executives, including the Company s Corporate Annual Incentive Plan and Amended and Restated Long-Term Incentive Plan and all savings and retirement plans and programs and welfare benefit plans and programs maintained by the Company and applicable generally to senior executives. The agreement also provides for reasonable use by Mr. Shelton of the Company s aircraft for personal trips when such aircraft are not otherwise needed for business purposes and certain other benefits, including compensation for financial and tax planning expenses incurred by Mr. Shelton and reimbursement of country club dues.

In the event of termination of Mr. Shelton s employment as a result of Disability (as defined in the agreement), Mr. Shelton, or his beneficiaries, will be entitled to receive an amount equal to three times Mr. Shelton s Aggregate Compensation (defined as base salary, incentive bonus and taxable benefits) for the

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calendar year preceding the year in which the date of termination occurs, payable in bi-weekly installments over a period of three years, any incentive bonus and deferred compensation, and the continuation of medical benefits until Mr. Shelton attains the age of 65 or, if he should die prior to attaining the age of 65, for three years following the date of his death. In the event of termination of Mr. Shelton s employment as a result of his death, his beneficiaries will be entitled to receive an amount equal to two times Mr. Shelton s Aggregate Compensation for the calendar year preceding the year in which the date of his death occurs, payable in bi-weekly installments over a period of two years, any incentive bonus and deferred compensation, and the continuation of medical benefits for three years following the date of his death. In the event of termination of Mr. Shelton s employment (i) by the Company as a result of non-renewal of the term of his employment agreement, (ii) by the Company or Mr. Shelton within 18 months after a Change of Control (as defined in the agreement) (or termination by the Company prior to a Change of Control arising in connection with a Change of Control), or (iii) by Mr. Shelton at any time for Good Reason (as defined in the agreement), Mr. Shelton will be entitled to receive a lump sum payment equal to three times Mr. Shelton s Aggregate Compensation for the calendar year preceding the year in which the date of termination occurs, any deferred compensation and the continuation of medical benefits for three years following the date of termination. If Mr. Shelton s employment is terminated by the Company for Cause (as defined in the agreement) or by Mr. Shelton as a result of non-renewal of the term of his employment agreement, Mr. Shelton will be entitled to any unpaid base salary through the date of termination and any deferred compensation, as well as health insurance benefits for Mr. Shelton and his family at his expense as provided by law. If Mr. Shelton s employment is terminated by the Company for Cause or by Mr. Shelton as a result of non-renewal of the term of his employment agreement or if stockholder approval would otherwise be required in connection with the treatment of his options, Mr. Shelton s options will be exercisable as provided in the Company s Amended and Restated Long-Term Incentive Plan. If Mr. Shelton s employment is terminated for any other reason, Mr. Shelton s vested options will be exercisable for two years following the date of termination, subject to applicable regulatory requirements and provided that stockholder approval is not required. Mr. Shelton s employment agreement provides that, during the term of his employment and for three years following the date of his termination of employment for any reason, or, in the case of termination of employment by the Company (other than due to death), for three years following the date of receipt of the Company s notice of termination (the Date of Termination), Mr. Shelton may not, directly or indirectly, act as an executive, employee, consultant, agent or representative for any company that is engaged in any business conducted by the Company as of the Date of Termination in any geographic area in which the Company is then conducting such business. In addition to the termination of employment provisions in his employment agreement, any restricted shares of Triad common stock granted to Mr. Shelton under the Company s Amended and Restated Long-Term Incentive Plan that have not yet become vested will be forfeited if Mr. Shelton s employment is terminated for any reason other than a change in control of the Company or as a result of a death or disability, pursuant to the applicable award agreement.

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COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The determination of the compensation of the Company s executive officers is made by the Compensation Committee of the Board of Directors, which is composed entirely of independent directors. As set forth in its charter, the Committee is responsible for, among other matters, (i) reviewing and approving compensation arrangements for the Chief Executive Officer and other executive officers and senior management of the Company, including incentive compensation, fringe benefit and retirement plans and other benefits and (ii) reviewing generally the Company s compensation policies and practices.

Compensation Philosophy

The Committee believes that performance and compensation should be evaluated on an ongoing basis to ensure that the Company remains externally competitive and internally equitable with its pay practices and maintains its ability to attract, retain and motivate highly qualified personnel. The Committee believes that the most effective compensation programs align the short and long-term interests of executives with those of stockholders and, therefore, ties the Company s strategic business goals to its executive compensation decisions. The Committee generally awards a balanced mix of cash and equity-based compensation. Base salary and annual incentives reward achievement of the Company s short term objectives, and long-term equity-based incentives encourage executives to focus on maximizing long-term shareholder value.

In order to attract and retain talented executives and key employees, base salaries for the Company s executives are targeted at the 60th percentile of the hospital industry. Target bonus payouts are established near the market median to motivate the Company s executives and key employees to achieve strong financial and operational performance. In addition, the Committee awards long-term incentive grants to achieve total compensation for the Company s officers and key employees that is between the median and 75th percentile of the market in return for superior Company performance.

Consistent with its past practice, the Company retained Mercer Human Resource Consulting (Mercer), a nationally recognized independent compensation consulting firm, to conduct an analysis of the Company s executive compensation practices based on a review of peer companies and published survey data prior to making any determinations with respect to 2005 executive compensation.

Base Salaries

The base salaries for 2005 of the named executive officers are listed above in the Summary Compensation Table under the main heading Executive Compensation. These salaries and the salaries of other executive officers are evaluated annually by the Committee. In determining appropriate salary levels and salary increases for 2005, the Committee considered individual performance, experience and level of responsibility, overall company performance, division performance (in the case of division executives) and pay practices at peer companies, as well as recommendations by the Chief Executive Officer for the other executive officers. In February 2005, the Committee determined to increase the 2005 base salaries of each executive officer (other than the Chief Executive Officer) by approximately 3%, to reflect market movement in peer companies. The Committee determined, following an evaluation of the factors described above, that existing base salaries for the Company s executive officers other than the Chief Executive Officer, as adjusted to reflect market movement in peer companies, were appropriate and competitive. The Committee further increased the salaries of three of the Company s executive officers to compensate for additions to or changes in each of such officer s duties during fiscal 2005. A discussion of the Chief Executive Officer s base salary for 2005 is set forth below under Chief Executive Officer Compensation.

Annual Incentive Compensation

The annual incentive compensation earned during 2005 by each of the named executive officers is listed above in the Summary Compensation Table under the main heading Executive Compensation. The annual incentive compensation for each of the Company s executive officers, including the named executive officers, was determined in accordance with terms of the Company s 2005 Corporate Annual Incentive Plan, which provides for the payment of formula-based annual cash incentives to eligible employees selected by the Committee, including all executive officers, based upon the achievement of objective business performance criteria. Annual incentive award opportunities at the Company are designed to focus management attention on key operational goals deemed important for the upcoming fiscal year and to support the Company s strategic goal for consistent growth by highlighting corporate and business unit earnings as the performance measures affecting incentive payments. Incentive compensation for corporate officers (including certain executive officers), payable only if the Company meets its targeted earnings per share (EPS), is composed of (i) a base incentive calculated using a predetermined percentage of the officer s salary (based on level of responsibility) and (ii) a supplemental incentive calculated using the amount by which the Company s actual EPS exceeds the targeted EPS, which is capped when the Company s actual EPS equals 120% of the targeted EPS. Incentive compensation for division officers (including certain executive officers), also payable only if the Company meets its targeted EPS, is similarly composed of a base incentive and a supplemental incentive, which is calculated based upon the amount by which the division s actual earnings before interest, taxes, depreciation and amortization (EBITDA) exceeds a specified EBITDA target, is subject to decrease if the division does not meet specified EBITDA, margin and cash accounts receivable targets, and will be capped at 150% of the participant s bonus target percentage. After the 2005 financial performance of the Company and its hospitals and other facilities was finalized, the Committee determined that the 2005 Annual Incentive Plan financial performance targets had been achieved, and the Committee authorized the payment of cash incentive compensation pursuant to the plan formulas, except with respect to certain division officers. At management s recommendation, the Committee approved modest exceptions to the plan calculations for certain division officers whose EBITDA targets were not met in order to recognize properly the contributions made by these employees to the overall success of the Company in meeting the EPS target.

Long-Term Incentive Compensation

The Committee believes that equity-based compensation is an appropriate component of compensation and an effective incentive for employees at varying levels of responsibility. In particular, the Committee believes that equity-based grants that vest over time provide an incentive that focuses the attention of the Company s executives and other key employees on managing the business of the Company from the perspective of an owner with an equity stake in the business and help ensure that operating decisions are based on long-term results that benefit the business and, ultimately, the Company s stockholders. The Committee granted stock option awards and one restricted stock award during fiscal 2005.

The Committee granted stock options to each of the Company s executive officers other than the Chief Executive Officer during 2005, which grants applicable to the named executive officers are listed above in the Option Grants in 2005 Fiscal Year Table under the main heading Executive Compensation. The Committee determined the number of options granted to these executive officers for 2005 based in part on the recommendations of the Chief Executive Officer and in consideration of the executive s level of responsibility, present and potential contributions to the success of the Company, level of compensation and competitive peer group data. Option grants provide the right to purchase shares of Triad common stock at an exercise price equal to the fair market value on the date of the grant, and thus provide compensation to the optionee only to the extent the market price of the stock increases from the date of grant until the date the option is exercised. Stock options granted to executive officers and other employees generally become vested and exercisable over a four-year period at a rate of 25% per year, based on continued employment, and have a term of exercise of ten years (subject to earlier termination upon termination of employment). All stock options granted to the Company s executive officers during 2005 were granted under the Company s 1999 Long-Term Incentive Plan. During 2005 the Committee granted a total of 1,990,250 options to purchase shares of Triad common stock to 253 employees of the Company. A discussion of the Chief Executive Officer s long-term incentive compensation for 2005 is set forth below under Chief Executive Officer Compensation.

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In addition to the Amended and Restated Long-Term Incentive Plan, the Company maintains an Amended and Restated Management Stock Purchase Plan to allow eligible employees, including the Company s executive officers, to elect to purchase restricted shares of Triad common stock through salary reductions up to a specified percentage of their base salary, subject to vesting requirements. These restricted shares are granted at a 25% discount from the six-month average market price of the Triad common stock on the grant date. The restrictions lapse on the first day of the month prior to the third anniversary of the date of grant, and subject to certain exceptions, an employee would forfeit the value of the discount and any appreciation in the stock if employment were terminated during the vesting period. Although the number of shares, if any, purchased by individual officers under the Management Stock Purchase Plan, as amended to date, is not subject to the discretion of management or the Committee, the Committee believes that it is an important component of its executive compensation program.

Deferred Compensation and Retirement Benefits

On an ongoing basis during 2004 and 2005, the Committee conducted a thorough evaluation of the Company s retirement benefit practices based on consultations with Mercer and reviews of peer companies. At the Committee s recommendation, the Board of Directors adopted the Triad Hospitals, Inc. Deferred Compensation Plan, effective January 1, 2005, to provide supplemental retirement benefits to select management and highly-compensated employees of the Company, including executive officers, beyond the financial limits of the Company s Retirement Savings Plan. In addition, at the Committee s recommendation, the Company s executive officers and senior management are eligible to participate in the Supplemental Executive Retirement Plan (the SERP), which was adopted by the Board of Directors effective September 2005. The Committee believes that the adoption of these two plans will advance the interests of the Company by adequately rewarding key executives, who are largely responsible for the long-term success and development of the Company, with a more competitive retirement benefit and encouraging such executives to continue their employment with the Company, as well as assist the Company in attracting such employees and stimulating their efforts on behalf of the Company.

Chief Executive Officer Compensation

For 2005, Mr. Shelton s base salary was $1,508,558, and the Committee awarded Mr. Shelton cash incentive compensation of $1,141,875 and granted a restricted stock award covering 100,000 shares of Triad common stock. Mr. Shelton is also entitled to certain other benefits pursuant to the terms of his employment agreement, which the Committee approved in 2003 and which is described in more detail above under Employment Contracts, Termination of Employment Arrangements and Change in Control Arrangements. These additional benefits include reasonable use of Company aircraft for personal trips when such aircraft are not otherwise needed for Triad business purposes and reimbursement of country club dues and the cost of tax preparation services. The Committee established Mr. Shelton s compensation for 2005 by generally applying the principles outlined above for executive officers, taking into account the Chief Executive Officer s responsibility for the total enterprise, as well as Mr. Shelton s individual performance. In May 2005, following an evaluation of the Chief Executive Officer s performance, the Committee increased Mr. Shelton s base salary by 5%. This increase was determined based on an assessment of peer group data and an analysis of Mr. Shelton s and the Company s performance in the following areas: (i) overall financial performance of the Company over the past year, including the Company s total shareholder return, which outperformed both its competitors and the Standard and Poor s Midcap 400 Index; (ii) Mr. Shelton s critical role in executing the Company s strategic platform within the corporate organization and each operating unit, including maintaining clinical leadership groups that the Committee believes are critical to the Company s long-term success and supporting quality care at every level; (iii) Mr. Shelton s significant contributions to the Company s day-to-day business operations and effective human resource capital management in a growing company; (iv) Mr. Shelton s recognized leadership in the for-profit hospital industry and of the Board and the Company s management; and (v) the Company s high patient and physician satisfaction levels, which support the cornerstone of the Company s philosophy. Mr. Shelton s cash incentive compensation was determined pursuant to the formula described above under the

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Company s 2005 Annual Incentive Plan. In determining the size of the restricted stock award granted to Mr. Shelton under the Amended and Restated Long-Term Incentive Plan, the Committee applied the principles outlined above with respect to options granted to executive officers in the same manner as they were applied to other executives. The restricted stock award vests in three equal annual installments beginning on the second anniversary of the date of grant. The shares of Triad common stock subject to the award are subject to forfeiture and restrictions on transfer prior to vesting.

The Committee believes that the use of restricted shares appropriately links the Chief Executive Officer s interests to strong long-term performance by the Company and the creation of stockholder value and enhances the retentive value of the Company s equity compensation awards. In addition, the Committee notes that, compared with granting stock options, restricted stock awards utilize fewer shares under the Company s Amended and Restated Long-Term Incentive Plan at a comparable cost to the Company. The Committee currently intends to increase its use of restricted stock awards in the future.

The Committee believes that Mr. Shelton s total compensation for fiscal 2005 is reasonable and consistent with the overall remuneration philosophy of the Committee, is appropriate as compared to his peers and reflects the Committee s subjective analysis of his performance as Chief Executive Officer.

Section 162(m) of the Internal Revenue Code of 1986

In general, Section 162(m) of the Internal Revenue Code (the Code) disallows a deduction to the Company for any compensation paid to its named executive officers in excess of $1 million during a calendar year, subject to an exception for compensation that qualifies as performance-based compensation. The Committee has endeavored, to the extent it deems consistent with the best interests of the Company and its stockholders, to obtain maximum deductibility of compensation paid to executive officers. For example, awards of stock options under the Company s Amended and Restated Long-Term Incentive Plan satisfy the requirements for performance-based compensation under Section 162(m). However, the Committee also recognizes the need to retain flexibility to make compensation decisions that may not meet Section 162(m) standards when necessary to enable the Company to meet its overall objectives, even if the Company may not deduct all of the compensation. Accordingly, the Committee will award non-deductible compensation in appropriate circumstances, including restricted stock awards. During 2005, the Company paid certain compensation that was not tax-deductible due to the limitations of Section 162(m), but the effect on the Company s taxes was not material to the Company.

Compensation Committee

Thomas G. Loeffler, Esq., Chairman

Harriet R. Michel

Gale E. Sayers

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Comparative Performance Graph

The following graph compares, as of the end of 2005, the cumulative total stockholder return on Triad common stock, the cumulative total return on the Standard & Poor s Hospital Management Index (Health Care Facilities) and the cumulative total return of the companies on the Standard & Poor s Midcap 400 Index (the S&P Composite) over the same period. The comparison assumes the investment of $100 on December 31, 2000, and the reinvestment of any cash dividend on the ex-dividend date in respect of such dividend.

Comparison of Cumulative Total Return

of Triad Hospitals, Inc., Health Care Facilities and the S&P Composite

COMPANY/INDEX	12/29/2000	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/30/2005
Triad Hospitals, Inc.	100.00	90.13	91.61	102.17	114.27	120.47
Health Care Facilities	100.00	102.20	73.79	77.75	69.90	77.91
S&P Composite	100.00	88.12	68.64	88.33	97.94	102.75

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AUDIT COMMITTEE REPORT

Management is responsible for the Company s internal controls and the financial reporting process. The registered independent accounting firm is responsible for performing an independent audit of the Company s consolidated financial statements and of management s report on internal control, in accordance with generally accepted auditing standards, and for issuing a report thereon. The Audit Committee s responsibility is to monitor and review these controls and processes and the activities of the Company s registered independent accounting firm. The Audit Committee members are not acting as professional accountants or auditors, and their functions are not intended to duplicate or certify the activities of management and the registered independent accounting firm or to certify the independence of the registered independent accounting firm under applicable rules.

The Audit Committee has reviewed and discussed Triad s audited financial statements and management s report on internal control as of December 31, 2005 with management and Ernst & Young LLP, Triad s registered independent accounting firm.

The Audit Committee has discussed with Ernst & Young LLP the matters required to be discussed by Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards, AU 380), as amended, as issued by the Auditing Standards Board of the American Institute of Certified Public Accountants.

The Audit Committee has received and reviewed the written disclosures and the letter from Ernst & Young LLP required by Independence Standard No. 1, as adopted by the Independence Standards Board, and has discussed with Ernst & Young LLP its independence. When considering Ernst & Young LLP s independence, the Audit Committee considered, among other matters, whether Ernst & Young LLP s provision of non-audit services to the Company is compatible with maintaining the independence of Ernst & Young LLP. Consistent with the requirements of the Sarbanes-Oxley Act of 2002, the Audit Committee has adopted additional policies to ensure the independence of the registered independent accounting firm, such as prior committee approval of non-audit services.

Based on the review and discussions referred to above, the Audit Committee has recommended to the Board of Directors that the audited financial statements and management s report on internal control as of December 31, 2005 be included in Triad s Annual Report on Form 10-K. The Audit Committee also selected Ernst & Young LLP as registered independent accounting firm of the Company for fiscal year 2006.

Audit Committee

Dale V. Kesler, Chairman

Thomas F. Frist III

Uwe E. Reinhardt, Ph.D.

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PROPOSAL II

RATIFICATION OF SELECTION OF REGISTERED INDEPENDENT ACCOUNTING FIRM

In accordance with its charter, the Audit Committee of the Board of Directors has selected Ernst & Young LLP as the Company s registered independent accounting firm to audit the Company s consolidated financial statements for fiscal 2006 and to render other services required of them. Ernst & Young LLP has served as the Company s registered independent accounting firm for the past six consecutive fiscal years. The Board of Directors is submitting the appointment of Ernst & Young LLP for ratification at the 2006 Annual Meeting.

Although the submission of this matter for ratification by stockholders is not legally required, the Board of Directors and its Audit Committee believe that such submission is consistent with best practices in corporate governance and is an opportunity for stockholders to provide direct feedback to the Board of Directors and its Audit Committee on an important issue of corporate governance. If the stockholders do not ratify the selection of Ernst & Young LLP at the meeting, the Audit Committee of the Board of Directors will reconsider its selection of such registered independent accounting firm; however, the Audit Committee of the Board of Directors may select Ernst & Young LLP notwithstanding the failure of the stockholders to ratify its selection.

The Audit Committee has direct authority and responsibility to retain, evaluate and, where appropriate, replace the independent accounting firm. Ratification by the stockholders of the appointment of Ernst & Young LLP does not limit the authority of the Audit Committee to direct the appointment of a new independent accounting firm at any time during the year.

A representative of Ernst & Young LLP is expected to be present at the meeting with the opportunity to make a statement if he or she so desires and to be available to respond to appropriate questions.

Required Vote

Ratification of the selection of Ernst & Young LLP as the Company s registered independent accounting firm for fiscal 2006 requires the affirmative vote of the holders of a majority of the votes of Triad common stock present or represented at the 2006 Annual Meeting and entitled to vote on such proposals. Abstentions may be specified on this proposal and will have the same effect as a vote against such proposal.

The Board of Directors recommends a vote FOR ratification of the selection of Ernst & Young LLP as the Company s registered independent accounting firm for fiscal 2006.

Audit and Non-Audit Fees

The following table summarizes the aggregate fees billed by Ernst & Young LLP for services rendered for the years ended December 31, 2005 and December 31, 2004:

		2005		2004
Audit fees		$ 3,693,203		$ 3,293,545
Audit-related fees		1,632,820		487,454
Tax fees:				
Tax return preparation	570,001		552,000	
Other tax matters	194,027		231,622	
Total tax fees		764,028		783,622
All other fees:				
Compliance review	588,500		647,340	
Other	37,341		21,446	
Total of all other fees		625,841		668,786
Total		$ 6,715,892		$ 5,233,407

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The amounts shown for audit fees for both 2005 and 2004 include fees for (i) professional services rendered for the audit by Ernst & Young LLP of the Company s annual financial statements and management s report on internal control, (ii) the reviews by Ernst & Young LLP of the Company s financial statements included in its Quarterly Reports on Form 10-Q, and (iii) work related to registration statements filed by the Company. The amounts shown for audit-related fees for both 2005 and 2004 include fees for audits of employee benefit plans and audits of certain majority-owned subsidiaries. The amounts shown for tax fees for both 2005 and 2004 include all income tax services other than those directly related to the audit of the income tax provision. The amounts shown for all other fees include (i) compliance review fees for both 2005 and 2004 for work performed in connection with the Company s regulatory compliance program and the Corporate Integrity Agreement between Triad and the Office of the Inspector General of the Department of Health and Human Services and (ii) all other services not described above relating primarily to Medicare wage index research in 2005 and cost reporting software in 2004.

Audit Committee Pre-Approval Policy

The Audit Committee Charter provides that the Audit Committee of the Company s Board of Directors has the responsibility to review and pre-approve the scope of, and related fees for, the annual audit by the Company s independent accounting firm, as well as any professional non-audit services to be provided to the Company. Either the Audit Committee or a designated member of the committee considers for pre-approval each proposed engagement and the related fees for audit and non-audit services to be provided by the Company s registered independent accounting firm, as well as any audit services to be provided by any other independent public accounting firms, considering the effect that such services could have on the firm s independence. The Audit Committee or a designated member of the committee also considers for pre-approval any fee overruns that may be anticipated after commencement of an engagement. Any decisions by a designated Audit Committee member to pre-approve non-audit services or anticipated fee overruns are presented to the Audit Committee at its next scheduled meeting. In accordance with its charter and these procedures, the Audit Committee pre-approved all of the services performed by Ernst & Young LLP for fiscal years 2005 and 2004, as described above under Audit and Non-Audit Fees.

STOCKHOLDER PROPOSALS AND NOMINATIONS

In accordance with the rules of the Securities and Exchange Commission, a stockholder proposal will be eligible for consideration for inclusion in the Company s Notice of Meeting, Proxy Statement and Proxy relating to the Company s 2007 Annual Meeting of Stockholders, if all applicable requirements of Rule 14a-8 promulgated under the Securities Exchange Act of 1934, as amended, are satisfied and such proposals are received by the Secretary of the Company not later than December 22, 2006. Such proposals should be directed to Corporate Secretary, Triad Hospitals, Inc., 5800 Tennyson Parkway, Plano, Texas 75024.

The Company s bylaws provide that, in order for stockholder proposals that are not intended to be included in the Company s Proxy Statement to be properly submitted as business to come before the Company s 2007 Annual Meeting of Stockholders, written notice must be received by the Secretary of the Company at the Company s principal executive offices not less than 90 days prior to the first anniversary of the preceding year s annual meeting of stockholders. If the date of the annual meeting is advanced more than 30 days prior to or delayed more than 60 days after such anniversary date, then written notice must be received not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which the public announcement of the date of such meeting is first made. For any such proposal to be properly submitted as business to come before the annual meeting, the notice (i) must be received by the Company from a stockholder of record at the time of giving such notice who is entitled to vote at the meeting and (ii) must comply with the requirements specified in the Company s bylaws. Such notice should be directed to Corporate Secretary, Triad Hospitals, Inc., 5800 Tennyson Parkway, Plano, Texas 75024.

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In addition to the requirements in the bylaws regarding stockholder proposals generally, the Company s bylaws currently provide that a stockholder may nominate persons for election to the Board of Directors at the Company s 2007 Annual Meeting of Stockholders if written notice is received by the Secretary of the Company within the applicable time period set forth above and such notice includes certain specified information, including, but not limited to, the proposed nominee s name, biographical and contact information and written consent to nomination and to serving as a director.

In the event that the number of directors to be elected to the Board of Directors is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Company at least 100 days prior to the first anniversary of the preceding year s annual meeting, a stockholder s notice required by the Company s bylaws shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it is delivered not later than the close of business on the 10th day following the day on which such public announcement is first made by the Company.

Nominations by stockholders of persons for election to the Board of Directors may be made at a special meeting of stockholders if the stockholder s notice required by the Company s bylaws is delivered not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

A copy of the applicable provisions of the bylaws may be obtained, without charge, upon written request addressed to Corporate Secretary, Triad Hospitals, Inc., 5800 Tennyson Parkway, Plano, Texas 75024.

OTHER MATTERS THAT MAY COME BEFORE THE MEETING

As of the date of this Proxy Statement, the Board of Directors knows of no matters other than those described in this Proxy Statement that will be presented for consideration at the 2006 Annual Meeting. Should any other matter(s) properly come before the meeting or any adjournment thereof, the persons named in the accompanying proxy will vote in accordance with their best judgment in the interest of the Company.

MISCELLANEOUS

All costs incurred in connection with the solicitation of proxies will be borne by the Company. Brokers, custodians and fiduciaries will be requested to transmit proxy material to the beneficial owners of Triad common stock held of record by such persons, at the Company s expense. The Company has retained Georgeson Shareholder Communications Inc. to aid in the solicitation of proxies and perform other services in connection with the 2006 Annual Meeting, and for its services expects to pay fees of approximately $9,500 plus expenses.

A copy of the Company s Annual Report on Form 10-K for the year ended December 31, 2005, excluding certain of the exhibits thereto, is included with this Proxy Statement.

By order of the Board of Directors,

Rebecca Hurley
Senior Vice President,

General Counsel and Secretary

April 14, 2006

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APPENDIX A

CHARTER

of the

AUDIT COMMITTEE

of the

BOARD OF DIRECTORS

of

TRIAD HOSPITALS, INC.

(as amended through November 9, 2005)

I. PURPOSE

The Committee is a committee of the Triad Hospitals, Inc. Board of Directors. Its function is to assist the Board of Directors in fulfilling its oversight responsibilities by (i) monitoring the integrity of financial information that will be provided to the shareholders and others; (ii) reviewing the Company s compliance with legal and regulatory requirements; (iii) reviewing areas of potential significant financial risk to the Company including evaluation of the system of internal controls which management and the Board of Directors has established; (iv) evaluating the independent auditor s qualifications and independence; (v) monitoring the performance of the Company s internal auditing function and the independent auditors as well as any other public accounting firm engaged to perform other audit, review or attest services; (vi) reporting regularly on all such matters to the Board of Directors; and (vii) annually preparing a report to the shareholders as required by the United States Securities and Exchange Commission (the SEC). The report should be signed by the chair of the Committee and included in the Company s annual proxy statement.

II. MEMBERSHIP & MEETINGS

A. Committee members shall meet the requirements of the New York Stock Exchange and the SEC.

B. The Committee shall consist of not less than three independent[1] directors and will meet at quarterly.

C. Director s fees are the only compensation an audit committee member may receive from the Company.

D. All members of the Committee shall be financially literate and able to read and understand fundamental financial statements. At least one member of the Committee should be designated by the full Board as a financial expert as defined by the SEC.

E. The Committee should meet separately in executive session at least quarterly with management, the Vice President of Audit Services (or other persons responsible for the internal audit function) and the independent auditors to discuss any matters that the Committee or these persons or groups believes should be discussed.

F. The simultaneous service of a Committee member on the audit committee of more than two other public companies requires a determination by the Board of Directors that such simultaneous service would not impair the ability of such members to effectively serve on the Committee and such determination must be disclosed in the Company s annual proxy statement.

G. Members of the Committee shall be nominated by the Nominating and Corporate Governance Committee and elected by the Board of Directors at its annual meeting. The Board of Directors shall designate the chair of the Committee.

H. A majority of the members of the Committee shall constitute a quorum of the Committee.

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[1] As defined for audit committee members by NYSE listing standards from time to time in effect and by other applicable laws, rules and regulations from time to time in effect.

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III. DUTIES & RESPONSIBILITIES

A. General

1. The Committee shall be responsible directly for the appointment (subject, if applicable, to shareholder ratification), retention, termination, compensation and terms of engagement, evaluation, and oversight of the work of the independent auditors (including resolution of disagreements between management and the independent auditors regarding financial reporting). The independent auditors shall report directly to the Committee.

2. Consider, in consultation with the independent and internal auditors, the audit scope and plan for the Company.

3. Discuss with management and the independent auditors the Company s annual and quarterly financial results, including 1) earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, and 2) the Company s disclosures under Management s Discussion and Analysis of Financial Condition and Results of Operations.

4. Discuss with management, the independent auditors and the internal auditors, the quality of the Company s disclosure controls and procedures, and review disclosures made by the Company s principal executive officer and principal financial officer in the Company s periodic reports filed with the SEC regarding compliance with their certification obligations.

5. Discuss with the independent auditors: 1) all alternative treatments of the Company s financial information within GAAP that have been discussed with management, the ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditors, and 2) other matters required to be communicated to audit committees in accordance with Statement of Auditing Standards (SAS) No. 61.

6. Review with management, the independent auditors and the internal auditors, significant issues concerning litigation, contingencies, claims, or assessments and all material accounting issues that require disclosure in the financial statements. This review should include a discussion of recent FASB or other regulatory agency pronouncements that have a material impact on the organization.

7. Review filings with the SEC and other published documents containing the Company s financial statements and consider whether the information contained in these documents is consistent with the information contained in the financial statements.

8. Review the Company s policies relating to compliance with laws and regulations; risk assessment and risk management; the Company s Code of Conduct; ethics; officers expense accounts, perquisites, and use of corporate assets; conflict of interest and the investigation of misconduct or fraud. Determine the extent to which the planned audit scope of the internal and independent auditors can be relied on to detect fraud.

9. Review and approve all related-party transactions, or designate a comparable body of the Board of Directors.

10. Review legal and regulatory matters that may have a material impact on the financial statements, the Company s related compliance policies and programs and reports received from regulators.

11. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal control and auditing matters.

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12. Establish procedures for the confidential, anonymous submission by the Company s employees of concerns regarding questionable accounting or audit matters.

13. State in the annual proxy statement that the company s audit committee has adopted a written charter, and include a copy at least every three years, or when significant amendments are made thereto.

14. Provide a report of Committee activities to the Board of Directors at regular intervals.

15. Review the Committee charter annually and recommend modifications to the Board of Directors as needed.

16. As appropriate, engage and obtain advice and assistance from outside legal, accounting or other advisors.

17. Form, and delegate authority to, subcommittees consisting of one or more members of the Committee, where appropriate.

18. Conduct an annual performance evaluation of the audit committee.

19. Determine the appropriate level of funding for payment of:

Compensation to the independent auditors and firms performing other audit, review or attest services for the Company;

Compensation to any advisors employed by the Committee; and

Ordinary administrative expenses that are necessary or appropriate in carrying out its duties.

B. Management

1. Consider with management and the independent auditors the rationale for employing firms other than the principal independent auditors.

2. Review management s evaluation of the adequacy of the organization s internal control structure under Sections 302 and 404 of the Sarbanes-Oxley Act and the extent to which significant recommendations made by the independent auditors and the internal auditors have been implemented.

C. Internal Auditors

1. Ensure that the Company has an internal audit function.

2. Review the services provided by the internal auditing function, including:

- The planned scope for the internal audit program, its objectives, and the staff required to attain these objectives;
- Reports that detail the activities of the internal auditing function; and
- The working relationship between the internal auditing department and the independent auditors.

3. Review and approve the appointment and termination of the Vice President of Audit Services.

4. Provide for periodic quality assurance reviews to ensure that the internal auditing function is operating in accordance with The Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing.

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D. Independent Auditors

1. Retain and terminate the Company s independent auditors and any public accounting firm engaged to perform other audit, review or attest services.

2. Review and preapprove the annual audit fees of the external auditing firm.

3. Review and preapprove the scope of other professional services to be performed by any independent public accountants as well as the related fees, and consider the possible effect that these services could have on the independence of such accountant.

4. Discuss with the independent auditor the results of its annual audit including:

The scope, plan, methods, practices and policies behind the audit work.

A review of the audited financial statements and the letter containing recommendations for improving accounting procedures and internal controls.

The results of the audit of the Company s internal controls Over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002.

Management s cooperation, including any problems or difficulties and management s response.

The quality of the Company s accounting principles and policies and underlying estimates when compared to it s the health care industry in general.

The related degree of aggressiveness or conservatism of the Company s accounting policies or underlying accounting estimates.

A determination that the Company s financial statements constitute a full and meaningful report to its shareholders and creditors.

E. At least annually, obtain and review a report by the independent auditors describing: 1) the firm s internal quality control procedures; 2) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and 3) a formal written statement delineating all relationships between the auditor and the Company, and its responsibility for discussing with the auditor and disclosed relationships or services disclosed in such statement that may impact the objectivity or independence of the Company s independent auditors (as set forth in *Independence Standards Board No. 1*).

F. Evaluate the qualifications, performance and independence of the independent auditors, and, in connection therewith, review and evaluate the lead partner and senior members of the independent auditors, assure the regular rotation of the audit partners as required by law as well as consider whether the independent audit firm itself should be rotated, so as to assure continuing auditor independence.

G. Confirm that the ultimate accountability of any public accounting firm engaged to prepare or issue an audit report, or perform other audit review or attest services, is to the Committee, which has the ultimate authority and responsibility to select, evaluate, and, where appropriate, replace such firms.

H. Adhere to hiring policies for employees or former employees of the independent auditors as designated by the SEC and PCAOB.

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