FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended September 30, 1999

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 1-10765

UNIVERSAL HEALTH SERVICES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	23-2077891
(State or other jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

UNIVERSAL CORPORATE CENTER
367 SOUTH GULPH ROAD
KING OF PRUSSIA, PENNSYLVANIA 19406

(Address of principal executive office) (Zip Code)

Registrant's telephone number, including area code (610) 768-3300

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common shares outstanding, as of October 31, 1999:

Class A	2,056,929
Class B	28,370,893
Class C	207,230
Class D	24,953

UNIVERSAL HEALTH SERVICES, INC.

I N D E X

PART I. FINANCIAL INFORMATION

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(000s omitted except per share amounts)
(unaudited)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
Net revenues	$ 489,828	$ 456,090	$ 1,522,990	$ 1,393,765
Operating charges:				
Operating expenses	201,709	192,055	609,559	568,131
Salaries and wages	181,674	165,547	542,815	492,393
Provision for doubtful accounts	44,926	31,116	125,997	101,372
Depreciation and amortization	26,695	27,160	80,870	77,868
Lease and rental expense	12,219	11,232	36,771	34,809
Interest expense, net	6,503	7,139	19,551	20,529
	473,726	434,249	1,415,563	1,295,102
Income before minority interests and income taxes	16,102	21,841	107,427	98,663
Minority interests in earnings (losses) of consolidated entities	(579)	1,413	6,172	6,687
Income before income taxes	16,681	20,428	101,255	91,976
Provision for income taxes	5,887	7,035	37,409	32,472
Net income	$ 10,794	$ 13,393	$ 63,846	$ 59,504
Earnings per common share - basic	$ 0.34	$ 0.41	$ 2.01	$ 1.83
Earnings per common share - diluted	$ 0.34	$ 0.40	$ 1.97	$ 1.78
Weighted average number of common shares - basic	31,425	32,643	31,697	32,595
Weighted average number of common share equivalents	626	690	670	786
Weighted average number of common shares and equiv. - diluted	32,051	33,333	32,367	33,381

See accompanying notes to these condensed consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(000s omitted)

	SEPTEMBER 30, 1999 (UNAUDITED)	DECEMBER 31, 1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,088	$ 1,260
Accounts receivable, net	285,067	256,354
Supplies	38,554	38,842
Deferred income taxes	26,762	10,838
Other current assets	13,574	12,321
Total current assets	371,045	319,615
Property and equipment	1,167,777	1,161,939
Less: accumulated depreciation	(423,352)	(396,530)
	744,425	765,409
Funds restricted for construction	41,036	43,413
	785,461	808,822
OTHER ASSETS:		
Excess of cost over fair value of net assets acquired	288,669	279,141
Deferred charges	11,968	13,533
Other	28,183	26,984
	328,820	319,658
	$ 1,485,326	$ 1,448,095
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 3,806	$ 4,082
Accounts payable and accrued liabilities	201,709	165,718
Federal and state taxes	-----	253
Total current liabilities	205,515	170,053
Other noncurrent liabilities	91,613	80,172
Minority interest	122,104	129,423
Long-term debt, net of current maturities	400,445	418,188
Deferred income taxes	27,049	23,252
COMMON STOCKHOLDERS' EQUITY:		
Class A Common Stock, 2,056,929 shares outstanding in 1999, 2,057,929 in 1998	21	21
Class B Common Stock, 28,600,123 shares outstanding in 1999, 29,901,218 in 1998	286	299
Class C Common Stock, 207,230 shares outstanding in 1999, 207,230 in 1998	2	2
Class D Common Stock, 25,007 shares outstanding in 1999, 28,788 in 1998	-----	-----
Capital in excess of par, net of deferred compensation of $240,000 in 1999 and $185,000 in 1998	169,260	221,500
Retained earnings	469,031	405,185
	638,600	627,007
	$ 1,485,326	$ 1,448,095

See accompanying notes to these condensed consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(000s omitted - unaudited)

	NINE MONTHS ENDED SEPTEMBER 30, 1999	NINE MONTHS ENDED SEPTEMBER 30, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 63,846	$ 59,504
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	80,870	77,868
Earnings of minority partners, net of losses	6,172	6,687
Changes in assets & liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	(15,731)	(28,875)
Accrued interest	(3,380)	(2,024)
Accrued and deferred income taxes	(5,969)	971
Other working capital accounts	34,200	25,765
Other assets and deferred charges	(2,930)	(497)
Other	2,176	(5,088)
Accrued insurance expense, net of commercial premiums paid	6,963	7,688
Payments made in settlement of self-insurance claims	(9,314)	(15,191)
NET CASH PROVIDED BY OPERATING ACTIVITIES	156,903	126,808
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment additions, net	(48,546)	(71,055)
Proceeds received from merger, sale or disposition of assets	15,431	10,955
Acquisition of businesses	(31,588)	(188,280)
NET CASH USED IN INVESTING ACTIVITIES	(64,703)	(248,380)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Reduction of long-term debt	(19,504)	--
Additional borrowings	--	129,376
Distributions to minority partners	(11,891)	(236)
Issuance of common stock	1,490	1,487
Repurchase of common shares	(56,467)	(6,047)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(86,372)	124,580
INCREASE IN CASH AND CASH EQUIVALENTS	5,828	3,008
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,260	332
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 7,088	$ 3,340
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 22,931	$ 22,553
Income taxes paid, net of refunds	$ 43,469	$ 32,025

See accompanying notes to these condensed consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) GENERAL

The consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments which, in the opinion of the Company, are necessary to fairly present results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the accompanying disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the financial statements, accounting policies and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1998.

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

(2) OTHER NONCURRENT AND MINORITY INTEREST LIABILITIES

Other noncurrent liabilities include the long-term portion of the Company's professional and general liability, compensation reserves, and pension liability.

The minority interest liability consists primarily of a 27.5% outside ownership interest in three acute care facilities located in Las Vegas, Nevada and a 20% outside ownership in an acute care facility located in Washington D.C.

(3) COMMITMENT AND CONTINGENCIES

Under certain agreements, the Company has committed or guaranteed an aggregate of $54 million related principally to the Company's self-insurance programs and as support for various debt instruments and loan guarantees, including a $40 million letter of credit related to the Company's 1997 acquisition of an 80% interest in The George Washington University Hospital.

(4) NEW ACCOUNTING PRONOUNCEMENT

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". The Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133," which delayed the effective date of SFAS No. 133 for one year until January 1, 2001. The Registrant does not expect the adoption of this statement to have a material impact on its financial position or results of operations.

The Company expects to adopt Statement 133 in January 2001 and has not yet quantified the impact on its financial statements. However, the Statement could increase the volatility in earnings and other comprehensive income.

SEGMENT REPORTING (UNAUDITED)

The Company adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", in 1998. SFAS No. 131 established standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to stockholders. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

The Company's reportable operating segments consist of acute care services and behavioral health care services. The "Other" segment column below includes centralized services including information services, purchasing, reimbursement, accounting, taxation, legal, advertising, design and construction, and patient accounting. Also included are the operating results of the Company's other operating entities including the outpatient surgery and radiation therapy centers and specialized women's health centers. The chief operating decision making group for the Company's acute care services and behavioral health care services is comprised of the Company's President and Chief Executive Officer, and the lead executives of each of the Company's two primary operating segments. The lead executive for each operating segment also manages the profitability of each respective segment's various hospitals. The operating segments are managed separately because each operating segment represents a business unit that offers different types of healthcare services. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

	THREE MONTHS ENDED SEPTEMBER 30, 1999			
	ACUTE CARE SERVICES	BEHAVIORAL HEALTH SERVICES	OTHER	TOTAL CONSOLIDATED
	(Dollar amounts in thousands)			
Gross inpatient revenues	$653,539	$107,534	$7,644	$768,717
Gross outpatient revenues	$237,090	$22,717	$27,430	$287,237
Total net revenues	$400,630	$68,388	$20,810	$489,828
EBITDAR (A)	$59,658	$10,640	($8,779)	$61,519
Total assets as of 9/30/99	$1,197,631	$156,121	$131,574	$1,485,326
Licensed beds	4,794	2,066	--------	6,860
Available beds	4,091	2,051	--------	6,142
Patient days	231,624	115,783	--------	347,407
Admissions	50,563	9,622	--------	60,185
Average length of stay	4.6	12.0	--------	5.8

	THREE MONTHS ENDED SEPTEMBER 30, 1998			
	ACUTE CARE SERVICES	BEHAVIORAL HEALTH SERVICES	OTHER	TOTAL CONSOLIDATED
	(Dollar amount in thousands)			
Gross inpatient revenues	$595,295	$84,724	$5,363	$685,382
Gross outpatient revenues	$215,575	$21,735	$21,691	$259,001
Total net revenues	$380,999	$58,054	$17,037	$456,090
EBITDAR (A)	$70,845	$10,370	($13,843)	$67,372
Total assets as of 9/30/98	$1,217,484	$129,959	$118,847	$1,466,290
Licensed beds	4,824	1,779	--------	6,603
Available beds	4,043	1,764	--------	5,807
Patient days	216,933	91,308	--------	308,241
Admissions	47,235	8,321	--------	55,556
Average length of stay	4.6	11.0	--------	5.5

	NINE MONTHS ENDED SEPTEMBER 30, 1999			
	ACUTE CARE SERVICES	BEHAVIORAL HEALTH SERVICES	OTHER	TOTAL CONSOLIDATED
	(Dollar amounts in thousands)			
Gross inpatient revenues	$2,042,486	$303,900	$20,180	$2,366,566
Gross outpatient revenues	$710,450	$73,288	$79,045	$862,783
Total net revenues	$1,264,206	$198,925	$59,859	$1,522,990
EBITDAR (A)	$236,595	$35,303	($27,279)	$244,619
Total assets as of 9/30/99	$1,197,631	$156,121	$131,574	$1,485,326
Licensed beds	4,811	1,947	--------	6,758
Available beds	4,101	1,932	--------	6,033
Patient days	719,504	327,778	--------	1,047,282
Admissions	152,729	28,155	--------	180,884
Average length of stay	4.7	11.6	--------	5.8

	NINE MONTHS ENDED SEPTEMBER 30, 1998			
	ACUTE CARE SERVICES	BEHAVIORAL HEALTH SERVICES	OTHER	TOTAL CONSOLIDATED
	(Dollar amount in thousands)			
Gross inpatient revenues	$1,804,158	$257,827	$15,574	$2,077,559
Gross outpatient revenues	$626,471	$68,500	$55,571	$750,542
Total net revenues	$1,170,015	$176,414	$47,336	$1,393,765
EBITDAR (A)	$236,790	$31,402	($36,323)	$231,869
Total assets as of 9/30/98	$1,217,484	$129,959	$118,847	$1,466,290
Licensed beds	4,652	1,779	--------	6,431
Available beds	3,942	1,764	--------	5,706
Patient days	655,728	274,902	--------	930,630
Admissions	138,667	24,628	--------	163,295
Average length of stay	4.7	11.2	--------	5.7

EBITDAR - Earnings before interest, income taxes, depreciation, amortization, lease & rental and minority interest expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

FORWARD-LOOKING STATEMENTS

The matters discussed in this report as well as the news releases issued from time to time by the Company include certain statements containing the words "believes", "anticipates", "intends", "expects" and words of similar import, which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance achievements of the Company or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the following: that the majority of the Company's revenues are produced by a small number of its total facilities; possible changes in the levels and terms of reimbursement for the Company's charges by government programs, including Medicare or Medicaid or other third party payers; industry capacity; demographic changes; existing laws and government regulations and changes in or failure to comply with laws and governmental regulations; the ability to enter into managed care provider agreements on acceptable terms; liability and other claims asserted against the Company; competition; the loss of significant customers; technological and pharmaceutical improvements that increase the cost of providing, or reduce the demand for healthcare; the ability to attract and retain qualified personnel, including physicians, the ability of the Company to successfully integrate its recent acquisitions; the Company's ability to finance growth on favorable terms; the impact of Year 2000 issues; and, other factors referenced in the Company's 1998 Form 10-K or herein. Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

RESULTS OF OPERATIONS

Net revenues increased 7% or $34 million for the three months ended September 30, 1999 and 9% or $129 million for the nine months ended September 30, 1999, over the comparable prior year periods. The $34 million increase during the third quarter of 1999, over the comparable prior year quarter, consists primarily of the following: (i) a 2.9% or $13 million increase in net revenues at the Company's acute care and behavioral health care facilities owned during both periods, and; (ii) $17 million of net revenues generated at three behavioral health care facilities located in Illinois, Indiana and New Jersey and an acute care facility located in Laredo, Texas (net of revenues generated at facility exchanged for the Laredo facility) all of which were acquired during the second quarter of 1999.

The $129 million increase in net revenues during the nine months ended September 30, 1999, over the comparable prior year period, was primarily attributable to: (i) a 4.6% or $62 million increase in net revenues at the Company's acute care and behavioral health care facilities owned during both periods (excluding a favorable $3.1 million prior year net revenue adjustment recorded in the second quarter of 1999 resulting from an adjustment to contractual allowances recorded in a prior year); (ii) $27 million of net revenues generated at three behavioral health care facilities located in Illinois, Indiana and New Jersey and an acute care facility located in Laredo, Texas (net of revenues generated at facility exchanged for the Laredo facility) all of which were acquired during the second quarter of 1999, and; (iii) the acquisition of four acute care facilities located in Puerto Rico and Las Vegas which were acquired during the first quarter of 1998 ($25 million).

Earnings before interest, income taxes, depreciation, amortization and lease and rental expense (before deducting minority interests in earnings of consolidated entities) ("EBITDAR") decreased to $62 million for the three months ended September 30, 1999 from $67 million in the comparable prior year quarter. EBITDAR increased to $245 million for the nine months ended September 30, 1999 as compared to $232 million during the prior year nine month period. Overall operating margins were

12.6% and 14.8% during the three month periods ended September 30, 1999 and 1998, respectively, and 16.1% and 16.6% during the nine month periods ended September 30, 1999 and 1998, respectively. The decrease in EBITDAR during the third quarter of 1999 and the decreases in the overall operating margins during the three and nine month periods ended September 30, 1999, as compared to the comparable prior year periods, were primarily due to decreases in operating performance at the Company's acute care facilities, as discussed below.

ACUTE CARE SERVICES

Net revenues from the Company's acute care hospitals, ambulatory treatment centers and specialized women's health centers accounted for 85% and 87% of consolidated net revenues for the three month periods ended September 30, 1999 and 1998, respectively, and 86% and 87% of consolidated net revenues for the nine month periods ended September 30, 1999 and 1998. Net revenues at the Company's acute care facilities owned in both periods increased 3.4% and 5.0% during the three and nine month periods ended September 30, 1999 as compared to the comparable prior year periods, respectively, (excluding the favorable $3.1 million net revenue adjustment included in the 1999 nine month period, as mentioned above). The 3.4% increase in same facility net revenue during the third quarter of 1999, as compared to the comparable prior year quarter, was due primarily to a 5.4% increase in admissions and a 5.8% increase in patient days at these facilities. The average length of stay at the acute care facilities owned in both periods remained unchanged at 4.6 days during the three month periods ended September 30, 1999 and 1998. The 5.0% increase in same facility net revenue during the nine month period ended September 30, 1999, as compared to the comparable prior year nine month period, was due primarily to a 5.6% increase in admissions and a 5.3% increase in patient days. The average length of stay at the acute care facilities owned in both periods remained unchanged at 4.7 days during the nine month periods ended September 30, 1999 and 1998.

The increase in net revenues at the Company's acute care facilities was caused primarily by an increase in inpatient admissions and an increase in outpatient activity. Outpatient activity continues to increase as gross outpatient revenues at the Company's acute care facilities owned in both three month periods ended September 30, 1999 and 1998 increased 9% during the three month period ended September 30, 1999, as compared to the comparable prior year quarter, and comprised 27% of the Company's acute care gross patient revenue in each of the quarters ended September 30, 1999 and 1998. Gross outpatient revenues at the Company's acute care facilities owned in both nine month periods ended September 30, 1999 and 1998 increased 11% during the nine month period ended September 30, 1999, as compared to the comparable prior year nine month period, and comprised 26% of the Company's acute care gross patient revenue in each of the nine month periods ended September 30, 1999 and 1998. The increase in net revenues at the Company's acute care facilities resulting from increased inpatient and outpatient volume was partially offset by lower payments from the government under the Medicare program as a result of The Balanced Budget Act of 1997.

The increase in outpatient revenues is primarily the result of advances in medical technologies and pharmaceutical improvements, which allow more services to be provided on an outpatient basis, and increased pressure from Medicare, Medicaid, managed care companies and other insurers to reduce hospital stays and provide services, where possible, on a less expensive outpatient basis. The hospital industry in the United States as well as the Company's acute care facilities continue to have significant unused capacity which has created substantial competition for patients. Inpatient utilization continues to be negatively affected by payor-required, pre-admission authorization and by payor pressure to maximize outpatient and alternative healthcare delivery services for less acutely ill patients. The Company expects the increased competition, admission constraints and payor pressures to continue. The Company's ability to maintain or increase its operating margins is dependent upon its ability to successfully respond to these trends as well as reductions in spending on governmental health care programs.

Earnings before interest, income taxes, depreciation, amortization and lease and rental expense (before deducting minority interests in earnings of consolidated entities) ("EBITDAR") at the Company's acute care facilities decreased to $60 million for the three months ended September 30, 1999 from

$71 million in the comparable prior year quarter and remained unchanged at $237 million for both nine month periods ended September 30, 1999 and 1998. Operating margins at the Company's acute care facilities were 14.9% and 18.6% during the three month periods ended September 30, 1999 and 1998, respectively, and 18.7% and 20.2% during the nine month periods ended September 30, 1999 and 1998, respectively.

During the 1999 third quarter the Company's acute care division experienced earnings pressure due to government reimbursement reductions, continued increases in the provision for doubtful accounts and weakened operating performance at facilities in Las Vegas, Nevada and Amarillo, Texas. As a percentage of acute care net revenues, the provision for doubtful accounts for the Company's acute care facilities was 10.1% and 7.1% for the three months ended September 30, 1999 and 1998, respectively, and 9.2% and 7.7% for the nine months ended September 30, 1999 and 1998, respectively. The increase in bad debt expense as a percentage of net revenues was due to: (i) a reduction in the reimbursement for Medicare bad debts as mandated by The Balanced Budget Act of 1997; (ii) continued delays in payments from health maintenance organizations; (iii) an increase in the number of uninsured patients seeking treatment at the Company's facilities, and; (iv) billing and collection issues related to the Company's Las Vegas facilities. The operating performance at the Company's facility in Amarillo, Texas has been negatively impacted by reduced level of business in a few high margin services and higher than anticipated indigent care costs. The Company will continue to allocate additional resources devoted to addressing the operational issues at its facilities in Las Vegas and Amarillo. Also unfavorably impacting the operating performance of the Company's acute care facilities during the third quarter of 1999, including its facility in Amarillo Texas, was a reduction in Medicaid disproportionate share reimbursement received by facilities located in Texas and South Carolina. Beginning in the third quarter of 1999, as a result of reductions stemming from The Balanced Budget Act of 1997 and program redesigns by the two states, the Company's Medicaid disproportionate share reimbursements have been reduced by approximately $11 million annually (see General Trends for additional disclosure).

BEHAVIORAL HEALTH SERVICES

Net revenues from the Company's behavioral health services facilities accounted for 14% and 13% of consolidated net revenues for the three month periods ended September 30, 1999 and 1998, respectively, and 13% of consolidated net revenues in each of the nine month periods ended September 30, 1999 and 1998. Net revenues at the Company's behavioral health services facilities owned in both periods remained relatively unchanged for the three month period ended September 30, 1999, as compared to the comparable prior year quarter, and increased 2.2% for the nine month period ended September 30, 1999, as compared to the comparable prior year period. For the three month period ended September 30, 1999, admissions at the Company's behavioral health services facilities owned in both periods decreased 1.3% as compared to the comparable prior year quarter while patient days increased 5.2% due to a 6.6% increase in the average length of stay to 11.7 days in the 1999 third quarter as compared to 11.0 days during the 1998 third quarter. For the nine month period ended September 30, 1999, admissions at the Company's behavioral health services facilities owned in both periods increased 3.8%, as compared to the comparable prior year nine month period, while patient days increased 6.3% in the 1999 nine month period as compared to the comparable prior year period. The average length of stay at the Company's behavioral health services facilities owned during both periods increased 2.4% to 11.4 days during the nine months ended September 30, 1999 as compared to 11.2 days during the comparable prior year period. The increase in the average length of stay during the three and nine month periods ended September 30, 1999, as compared to the comparable prior year periods, was due to a greater emphasis on child, adolescent and specialty programs.

Earnings before interest, income taxes, depreciation, amortization and lease and rental expense (before deducting minority interests in earnings of consolidated entities) ("EBITDAR") at the Company's behavioral health care facilities increased to $11 million for the three months ended September 30, 1999 from $10 million in the comparable prior year quarter and $35 million for the nine months ended September 30, 1999 as compared to $31 million during the prior year nine month period. Operating margins at the Company's behavioral health care facilities were 15.6% and 17.9% during the three month periods ended September 30, 1999 and 1998, respectively, and 17.7% and 17.8% during the nine month periods ended September 30, 1999 and 1998, respectively. The decrease in the operating margin during the third quarter of 1999, as compared to the 1998 third quarter, was due primarily to lower payments from the government under the Medicare program as a result of The Balance Budget Act of 1997 and lower margins on the adolescent and specialty programs.

OTHER OPERATING RESULTS

The Company recorded minority interest expense/(income) in the earnings/(losses) of consolidated entities amounting to ($579,000) and $1.4 million for the three months ended September 30, 1999 and 1998, respectively, and $6.2 million and $6.7 million for the nine months ended September 30, 1999 and 1998, respectively. The minority interest expense/(income) recorded during both periods consists primarily of the minority ownership's share of the net income of four acute care facilities, three of which are located in Las Vegas, Nevada and one located in Washington, DC. The $2.0 million change during the third quarter of 1999, as compared to the 1998 comparable quarter, was due primarily to the unfavorable operating performance trends experienced at the Company's acute care facilities located in Las Vegas, Nevada.

Depreciation and amortization expense remained relatively unchanged at $27 million in each of the three month periods ended September 30, 1999 and 1998. For the nine month period ended September 30, 1999, depreciation and amortization expense increased 4% to $81 million as compared to $78 million in the comparable prior year period. The increase was due primarily to the four acute care hospitals acquired during the first quarter of 1998 (three in Puerto Rico and one in Las Vegas) and three behavioral health care facilities acquired during the second quarter of 1999.

Interest expense decreased 9% or $600,000 and 5% or $1.0 million during the three and nine month periods ended September 30, 1999, as compared to the comparable prior year periods, respectively, due primarily to lower average outstanding borrowings.

The effective tax rate was 35.3% and 34.4% for the three months ended September 30, 1999 and 1998, respectively, and 36.9% and 35.3% for the nine months ended September 30, 1999 and 1998, respectively. The increase in the effective tax rate during the 1999 periods as compared to the comparable prior year periods was due to a reduction in the tax benefits related to the financing of employee benefit programs.

GENERAL TRENDS

A significant portion of the Company's revenue is derived from fixed payment services, including Medicare and Medicaid which accounted for 45% of the Company's net patient revenues during each of the three and nine month periods ended September 30, 1999 and 1998. The Medicare program reimburses the Company's hospitals primarily based on established rates by a diagnosis related group for acute care hospitals and by cost based formula for behavioral health facilities. Historically, rates paid under Medicare's prospective payment system ("PPS") for inpatient services have increased, however, these increases have been less than cost increases. Pursuant to the terms of The Balanced Budget Act of 1997 (the "1997 Act"), there were no increases in the rates paid to hospitals for inpatient care through September 30, 1998. The modest rate increases that became effective on October 1, 1998 were more than offset by the negative impact of converting reimbursement on skilled nursing facility patients from a cost based reimbursement to a prospective payment system and from lower DRG payments on certain patient transfers mandated by the 1997 Act. Reimbursement for bad debt expense and capital costs as well as other items have been reduced. Outpatient reimbursement for Medicare patients is scheduled to convert to a PPS during the second quarter of 2000. Since final provisions of the outpatient Medicare PPS are not yet available, the Company can not completely estimate the resulting impact on its future results of operations.

Congress is considering passage of federal legislation that will restore a potion of the Medicare reimbursement reductions that were mandated by The Balanced Budget Act of 1997. Reimbursement for services that will be impacted by the potential legislation include outpatient services, skilled nursing facility services, home health services and teaching hospital reimbursement. The potential impact of this legislation can not be determined by the Company at this time and although the Company believes the ultimate impact of this legislation will be favorable, the Company does not expect the resulting impact to have a material effect on its future results of operations.

The healthcare industry is subject to numerous laws and regulations which include, among other things, matters such as government healthcare participation requirements, various licensure and accreditations, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government action has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse and false claims statutes and/or regulations by healthcare providers. Providers that are found to have violated these laws and regulations may be excluded from participating in government healthcare programs, subjected to fines or penalties or required to repay amounts received from government for previously billed patient services. While management of the Company believes its policies, procedures and practices comply with governmental regulations, no assurance can be given that the Company will not be subjected to governmental inquiries or actions.

In Texas, a law has been passed which mandates that the state senate apply for a waiver from current Medicaid regulations to allow the state to require that certain Medicaid participants be serviced through managed care providers. The Company is unable to predict whether Texas will be granted such a waiver or the effect on the Company's business of such a waiver. Upon meeting certain conditions, and serving a disproportionately high share of Texas' and South Carolina's low income patients, three of the Company's facilities located in Texas and one facility located in South Carolina became eligible and received additional reimbursement from each state's disproportionate share hospital fund. Beginning in the third quarter of 1999, as a result of reductions stemming from The Balanced Budget Act of 1997 and program redesigns by the two states, the Company's Medicaid disproportionate share reimbursements have been reduced by approximately $11 million annually. Included in the Company's financial results was an aggregate of $8.2 million and $9.2 million for the three month periods ended September 30, 1999 and 1998, respectively, and $28.4 million and $26.4 million for the nine months ended September 30, 1999 and 1998, respectively. Failure to renew these programs, which are scheduled to terminate in the third quarter of 2000, or further reductions in reimbursements could have additional material adverse effects on the Company's future results of operations.

In addition to the Medicare and Medicaid programs, other payors, including managed care companies, continue to actively negotiate the amounts they will pay for services performed. In general, the Company expects the percentage of its business from managed care programs, including health maintenance organizations and preferred provider organizations to grow. The consequent growth in managed care networks and the resulting impact of these networks on the operating results of the Company's facilities vary among the markets in which the Company operates.

YEAR 2000 ISSUE

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. The Company's computer programs, certain building infrastructure components (including elevators, alarm systems and certain HVAC systems) and certain computer aided medical equipment that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruption of operations or medical equipment malfunctions that could affect patient diagnosis and treatment.

The Company has undertaken steps to inventory and assess applications and equipment at risk to be affected by Year 2000 issues and to convert, remediate or replace such applications and equipment. The Company has completed its assessment of its major financial, clinical and peripheral software and

The Company has undertaken steps to inventory and assess applications and equipment at risk to be affected by Year 2000 issues and to convert, remediate or replace such applications and equipment. The Company has completed its assessment of its major financial, clinical and peripheral software and believes that such software is substantially Year 2000 compliant. The Company also believes its biomedical equipment is substantially Year 2000 compliant and it intends to replace equipment that is not Year 2000 compliant before the year end . The Company believes that Year 2000 related remediation costs incurred through September 30, 1999 have not had a material impact on its results of operations. Some replacement or upgrade of systems and equipment would take place in the normal course of business. Several systems, key to the Company's operations, have been scheduled to be replaced through vendor supplied systems before Year 2000. The costs of repairing existing systems is expensed as incurred. The Company has allocated a portion of its 1999 capital budget as Year 2000 contingency funds and expects that all of the capital costs can be accommodate within that budget. The Company presently believes that with modifications to existing software and conversions to new software, the Year 2000 issue will not pose material operational problems for its computer systems. However, if such modifications and conversions are not made, or are not completed timely, the Year 2000 issue could have a material impact on the operations of the Company.

The majority of the software used by the Company is purchased from third parties. The Company is relying on software (including the Company's major outsourcing vendor which provides the financial and clinical applications for the majority of the Company's acute care facilities), hardware and other equipment vendors to verify Year 2000 compliance of their products. The Company also depends on: fiscal intermediaries which process claims and make payments for the Medicare program; health maintenance organizations, insurance companies and other private payors; vendors of medical supplies and pharmaceuticals used in patient care; and, providers of utilities such as electricity, water, natural gas and telephone services. As part of its Year 2000 strategy, the Company intends to seek assurances from these parties that their services and products will not be interrupted or malfunction due to the Year 2000 problem. Failure of third parties to resolve their Year 2000 issues could have a material adverse effect on the Company's results of operations and its ability to provide health care services.

The Company developed contingency plans in all hospitals that it believes will reduce disruption in service that may be caused by the Year 2000 problem. As part of the contingency plan, each hospital has a disaster plan, which is reviewed regularly. These disaster plans are designed to enable the hospital to continue to function during natural disasters and other crises. The plans contemplate moving patients to other facilities if the hospital is not able to continue to care for them. In some cases, the facility may not be able to develop contingency plans which allow the hospital to continue to operate. For example, the affected hospital may not be able to secure supplies of fuel to operate its backup generators if electrical supplies fail for an extended period. Despite these contingency plans no assurance can be given that the Company's facilities will be able to continue to operate in all circumstances.

This Year 2000 assessment is based on information currently available to the Company and the Company will revise its assessment at it implements its Year 2000 strategy. The Company can provide no assurance that applications and equipment the Company believes to be Year 2000 compliant will not experience difficulties or that the Company will not experience difficulties obtaining resources needed to make modifications to or replace the Company's affected systems and equipment. Failure by the Company or third parties on which it relies to resolve Year 2000 issues could have a material adverse effect on the Company's results of operations and its ability to provide health care services. Consequently, the Company can give no assurances that issues related to Year 2000 will not have a material adverse effect on the Company's financial condition or results of operations.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $157 million for the nine months ended September 30, 1999 as compared to $127 million for the nine month period ended September 30, 1998. The $30 million net increase during the 1999 nine month period as compared to the comparable prior year period was primarily attributable to: (i) a $7 million favorable increase in net income plus the addback of depreciation and amortization expense and earnings of minority partners, net of losses; (ii) a $6 million favorable decrease in payments made in settlement of self-insurance claims; (iii) a $13 million favorable change in accounts receivable, and; (iv) $4 million of other net favorable working capital changes.

During the first nine months of 1999, the Company spent approximately $49 million to finance capital expenditures at its existing hospitals as compared to $71 million in the prior year nine month period. During the second quarter of 1999, the Company acquired three behavioral health care facilities located in Illinois, Indiana and New Jersey for a combined purchase price of approximately $27 million. Also during the second quarter of 1999, the Company exchanged the operations and assets of 147-bed acute care facility located in Victoria, Texas for the assets and operations of a 117-bed acute care facility located in Laredo, Texas. In connection with this transaction, the Company also spent $5 million to purchase additional land in Laredo, Texas on which it expects to construct a replacement hospital scheduled to be completed in 2001. During the nine month period ended September 30, 1999, the Company received total proceeds of $15 million for the sale of: (i) the real property of a medical office building; (ii) a minority ownership interest in a radiation therapy center and an outpatient surgery center, and; (iii) the operations of two outpatient surgery centers. The net gain/loss resulting from these transactions did not have a material impact on the results of operations for the three or nine month periods ended September 30, 1999.

During the first quarter of 1998, the Company completed its acquisition of three acute care hospitals located in Puerto Rico for a combined purchase price of $186 million. These acquisitions were financed with funds borrowed under the Company's revolving credit facility. Also during the first quarter of 1998, the Company contributed substantially all of the assets, liabilities and operations of Valley Hospital Medical Center, a 417-bed acute care facility, and Summerlin Hospital Medical Center, a 148-bed acute care facility in exchange for a 72.5% interest in a series of newly-formed limited liability companies ("LLCs"). Quorum Health Group, Inc. ("Quorum") holds the remaining 27.5% interest in the LLCs. Quorum obtained its interest by contributing substantially all of the assets, liabilities and operations of Desert Springs Hospital, a 241-bed acute care facility and $11 million of net cash.

During the third quarter of 1998, the Company's Board of Directors approved a stock repurchase program authorizing the Company to purchase up to two million shares or approximately 6% of its outstanding Class B Common Stock. This initial repurchase program was completed during the third quarter of 1999, at which time, the Board of Directors approved a plan for repurchase of up to an additional two million shares of the Company's Class B Common Stock. Pursuant to the stock repurchase program, the Company, from time to time and as conditions allow, may purchase shares on the open market at prevailing market prices or in negotiated transactions off the market. Pursuant to the terms of these programs, the Company repurchased 1,531,579 shares at an average repurchase price of $36.85 per share ($56.5 million in the aggregate) during the nine months ended September 30, 1999. Since inception of the initial program through September 30, 1999, the Company repurchased 2,112,079 shares at an average repurchase price of $38.63 per share ($81.4 million in the aggregate).

As of September 30, 1999, the Company had $210 million of unused borrowing capacity under the terms of its $400 million revolving credit agreement which matures in July 2002 and provides for interest at the Company's option at the prime rate, certificate of deposit plus 3/8% to 5/8%, Euro-dollar plus 1/4% to 1/2% or money market. As of September 30, 1999, the Company had $5 million of unused borrowing capacity under the terms of its $100 million, annually renewable, commercial paper program. The Company's total debt as a percentage of total capitalization was 39% at September 30, 1999 and 40% at December 31, 1998.

The Company expects to finance all capital expenditures and acquisitions with internally generated funds and borrowed funds. Additional borrowed funds may be obtained either through refinancing the existing revolving credit agreement, the commercial paper facility or the issuance of long-term securities.

PART II. OTHER INFORMATION

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the quantitative and qualitative disclosures in 1999. Reference is made to Item 7 in the Annual Report on Form 10-K for the year ended December 31, 1998.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

27. Financial Data Schedule

(b) Reports on Form 8-K

None

All other items of this Report are inapplicable.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

SIGNATURE

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

Universal Health Services, Inc.
Registrant)

Date: November 11, 1999

/s/ Kirk E. Gorman

Kirk E. Gorman, Senior Vice President and
Chief Financial Officer

(Principal Financial Officer and
Duly Authorized Officer).

5
1,000
U.S. DOLLARS

9-MOS
DEC-31-1999
JAN-01-1999
SEP-30-1999
1
7,088
0
285,067
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423,352
1,485,326
205,515
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638,291
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0
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19,551
101,255
37,409
63,846
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0
63,846
2.01
1.97