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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 March 31, 2003

OR

o **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 o

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

Yes x No o

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 April 30, 2003:

Class A	3,328,404
Class B	54,796,764
Class C	335,800
Class D	34,413

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UNIVERSAL HEALTH SERVICES, INC.

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PART I. FINANCIAL INFORMATION

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

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Net revenues	$ 894,808	$ 804,371
Operating charges:		
Salaries, wages and benefits	355,782	319,707
Other operating expenses	203,910	191,896
Supplies expense	120,737	103,508
Provision for doubtful accounts	65,420	57,894
Depreciation and amortization	34,537	29,408
Lease and rental expense	15,821	15,190
Interest expense, net	9,855	8,964
Gain on foreign exchange and derivative transactions	(6)	(234)
	806,056	726,333
Income before minority interests and income taxes	88,752	78,038
Minority interests in earnings of consolidated entities	5,030	5,873
Income before income taxes	83,722	72,165
Provision for income taxes	30,932	26,492
Net income	$ 52,790	$ 45,673
Earnings per common share - basic	$ 0.91	$ 0.76
Earnings per common share - diluted	$ 0.84	$ 0.71
Weighted average number of common shares - basic	58,277	59,862
Shares for conversion of convertible debentures	6,577	6,577
Weighted average number of common share equivalents	742	609
Weighted average number of common shares and equivalents - diluted	65,596	67,048

See accompanying notes to these condensed consolidated financial statements.

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

	March 31, 2003	December 31, 2002
Assets		
Current assets:		
Cash and cash equivalents	$ 32,416	$ 17,750
Accounts receivable, net	510,149	474,763
Supplies	60,018	58,217
Deferred income taxes	21,132	25,023
Other current assets	30,863	30,823
Total current assets	654,578	606,576
Property and equipment	1,935,438	1,854,717
Less: accumulated depreciation	(713,267)	(687,430)
	1,222,171	1,167,287
Other assets:		
Goodwill	429,123	410,320
Deferred charges	14,795	14,390
Other	120,361	124,656
	564,279	549,366
	$ 2,441,028	$ 2,323,229
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	$ 11,092	$ 8,253
Accounts payable and accrued liabilities	339,782	350,098
Federal and state taxes	37,876	12,062
Total current liabilities	388,750	370,413
Other noncurrent liabilities	219,310	206,238
Minority interest	139,070	134,339
Long-term debt, net of current maturities	730,600	680,514
Deferred income taxes	13,309	14,266
Common stockholders' equity:		
Class A Common Stock, 3,328,404 shares outstanding in 2003, 3,328,404 in 2002	33	33
Class B Common Stock, 54,777,683 shares outstanding in 2003, 55,341,350 in 2002	548	553
Class C Common Stock, 335,800 shares outstanding in 2003, 335,800 in 2002	3	3
Class D Common Stock, 35,143 shares outstanding in 2003, 35,506 in 2002	—	—
Capital in excess of par, net of deferred compensation of $12,309 in 2003 and $14,247 in 2002	63,231	84,135
Retained earnings	904,215	851,425
Accumulated other comprehensive loss	(18,041)	(18,690)
	949,989	917,459
	$ 2,441,028	$ 2,323,229

See accompanying notes to these condensed consolidated financial statements.

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

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Cash Flows from Operating Activities:		
Net income	$ 52,790	$ 45,673
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	34,537	29,408
Accretion of discount on convertible debentures	3,159	3,035
Gains on foreign exchange and derivative transactions	(6)	(234)
Changes in assets & liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	(20,762)	(40,126)
Accrued interest	2,329	3,723
Accrued and deferred income taxes	31,288	24,132
Other working capital accounts	(35,087)	605
Other assets and deferred charges	9,783	(10,843)
Other	(1,097)	(2,841)
Minority interest in earnings of consolidated entities, net of distributions	3,581	1,280
Accrued insurance expense, net of commercial premiums paid	15,399	13,931
Payments made in settlement of self-insurance claims	(15,148)	(10,870)
Net cash provided by operating activities	80,766	56,873
Cash Flows from Investing Activities:		
Property and equipment additions, net	(40,342)	(40,711)
Proceeds received from divestitures, net	2,978	—
Acquisition of businesses	(45,482)	—
Net cash used in investing activities	(82,846)	(40,711)
Cash Flows from Financing Activities:		
Additional borrowings	38,738	—
Reduction of long-term debt	—	(20,728)
Issuance of common stock, net of issuance costs	525	583
Repurchase of common shares	(22,517)	(2,483)
Net cash provided by (used in) financing activities	16,746	(22,628)
Increase (Decrease) in cash and cash equivalents	14,666	(6,466)
Cash and cash equivalents, Beginning of Period	17,750	22,848
Cash and cash equivalents, End of Period	$ 32,416	$ 16,382
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 4,367	$ 2,206
Income taxes paid, net of refunds	$ 656	$ 3,567

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 include the accounts of Universal Health Services, Inc. (the "Company"), its majority-owned subsidiaries and partnerships controlled by the Company or its subsidiaries as managing general partner. 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 normal and recurring 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, significant accounting policies and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002. Certain prior year amounts have been reclassified to conform with current year financial statement presentation.

(2) Related Party Transactions

At March 31, 2003, the Company held approximately 6.6% of the outstanding shares of Universal Health Realty Income Trust (the "Trust"). The Company serves as Advisor to the Trust under an annually renewable advisory agreement pursuant to the terms of which the Company conducts the Trust's day-to-day affairs, provides administrative services and presents investment opportunities. In connection with this advisory agreement, the Company earned an advisory fee from the Trust of approximately $350,000 in each of the three month periods ended March 31, 2003 and 2002, which are included in net revenues in the accompanying consolidated statements of income. In addition, certain officers and directors of the Company are also officers and/or directors of the Trust. Management believes that it has the ability to exercise significant influence over the Trust and therefore the Company accounts for its investment in the Trust using the equity method of accounting. The Company's pre-tax share of income from the Trust was $400,000 and $300,000 during the three month periods ended March 31, 2003 and 2002, respectively, and is included in net revenues in the accompanying consolidated statements of income. As of March 31, 2003, the Company leased six hospital facilities from the Trust with terms expiring in 2004 through 2006. These leases contain up to five, five-year renewal options. Total rent expense under these operating leases was $4.4 million and $4.2 million during the three month periods ended March 31, 2003 and 2002, respectively.

In connection with a long-term incentive compensation plan that was terminated during the third quarter of 2002, the Company had $17.6 million as of March 31, 2003 and $17.7 million as of December 31, 2002, of gross loans outstanding to various employees of which $15.3 million as of March 31, 2003 and $15.1 million as of December 31, 2002 were charged to compensation expense through that date. Included in the amounts outstanding were gross loans to officers of the Company amounting to $13.1 million as of March 31, 2003 and $13.2 million as of December 31, 2002.

The Company's Chairman and Chief Executive Officer is a member of the Board of Directors of Broadlane, Inc. In addition, the Company and certain members of the executive management team and board of directors own approximately 6% of the outstanding shares of Broadlane, Inc. as of March 31, 2003. Broadlane, Inc. provides contracting and other supply chain services to various healthcare organizations, including the Company.

A member of the Company's Board of Directors and member of the Executive Committee is Of Counsel to the law firm used by the Company as its principal outside counsel. This Board member is also the trustee of certain trusts for the benefit of the Chief Executive Officer and his family. This law firm also provides personal legal services to the Company's Chief Executive Officer.

(3) Other Noncurrent and Minority Interest Liabilities

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

Minority interest consists primarily of a 27.5% outside ownership interest in three acute care facilities located in Las Vegas, Nevada, a 20% outside ownership in an acute care facility located in Washington D.C. and a 20% outside ownership interest in an operating company that owns eleven hospitals in France.

(4) Commitments and Contingencies

Due to unfavorable pricing and availability trends in the professional and general liability insurance markets, the Company's subsidiaries have assumed a greater portion of the hospital professional and general liability risk as the cost of commercial professional and general liability insurance coverage has risen significantly. As a result, effective January 1, 2002, most of the Company's subsidiaries were self-insured for malpractice exposure up to $25 million per occurrence. The Company on behalf of its subsidiaries, purchased an umbrella excess policy through a commercial insurance carrier for coverage in excess of $25 million per occurrence with a $75 million aggregate limitation. Given these insurance market conditions, there can be no assurance that a continuation of these unfavorable trends, or a sharp increase in claims asserted against the Company, will not have a material adverse effect on the Company's future results of operations.

For the period from January 1, 1998 through December 31, 2001, most of the Company's subsidiaries were covered under commercial insurance policies with PHICO, a Pennsylvania based insurance company that was placed into liquidation during the first quarter of 2002. As a result of PHICO's liquidation, the Company recorded a $40 million pre-tax charge during the fourth quarter of 2001. PHICO continues to have substantial liability to pay claims on behalf of the Company and although those claims could become the Company's liability, the Company may be entitled to receive reimbursement from state insurance guaranty funds and/or PHICO's estate for a portion of certain claims ultimately paid by the Company. The Company expects that the cash payments related to these claims will be made over the next seven years as the cases are settled or adjudicated. In estimating the $40 million pre-tax charge, the Company evaluated all known factors, however, there can be no assurance that the Company's ultimate liability will not be materially different than the estimated charge recorded. Additionally, if the ultimate PHICO liability assumed by the Company is substantially greater than the established reserve, there can be no assurance that the additional amount required will not have a material adverse effect on the Company's future results of operations.

As of March 31, 2003, the total accrual for the Company's professional and general liability claims, including all PHICO related claims was $165.7 million ($128.7 million net of expected recoveries from state guaranty funds), of which $12 million is included in other current liabilities. As of December 31, 2002, the total reserve for the Company's professional and general liability claims was $168.2 million ($131.2 million net of expected recoveries from state guaranty funds), of which $12 million is included in other current liabilities. Included in other assets as of March 31, 2003 and December 31, 2002 is $37.0 million related to estimated expected recoveries from various state guaranty funds in connection with PHICO related professional and general liability claims payments.

As of March 31, 2003, the Company has outstanding letters of credit and surety bonds totaling $33.4 million consisting of: (i) $27.5 million related to the Company's self-insurance programs, and; (ii) $5.9 million consisting primarily of collateral for outstanding bonds of an unaffiliated third party and public utility.

(5) Financial Instruments

Fair Value Hedges: The Company has two floating rate swaps having a combined notional principal amount of $60 million in which the Company receives a fixed rate of 6.75% and pays a floating rate equal to 6 month LIBOR plus a spread. The initial term of these swaps was ten years and they are both scheduled to expire on November 15, 2011. During the three months ended March 31, 2003, the Company recorded a decrease of $684,000 in other non-current liabilities to recognize the fair value of these swaps and a $684,000 increase in long-term debt to recognize the difference between the carrying value and fair value of the related hedged liability.

Cash Flow Hedges: As of March 31, 2003, the Company has one fixed rate swap with a notional principal amount of $125 million which expires in August, 2005. The Company pays a fixed rate of 6.76% and receives a floating rate equal to three month LIBOR. As of March 31, 2003, the floating rate on this $125 million interest rate swaps was 1.34%. Also as of March 31, 2003, a majority-owned subsidiary of the Company had two interest rate swaps denominated in Euros. The two interest rate swaps are for a total notional amount of 41.2 million Euros ($44.4 million based on the end of period currency exchange rate). The notional amount decreases to 35.0 million Euros ($37.7 million) on December 30, 2003, 27.5 million Euros, ($29.6 million) on December 30, 2004 and the swap matures on June 30, 2005. The Company pays an average fixed rate of 4.35% and receives six month EURIBOR. The effective floating rate for these swaps as of March 31, 2003 was 3.50%

During the three months ended March 31, 2003 and 2002, the Company recorded in accumulated other comprehensive income ("AOCI"), pre-tax gains of $270,000 ($170,000 after-tax) and $1.7 million ($1.1 million after-tax), respectively, to recognize the change in fair value of all derivatives that are designated as cash flow hedging instruments. The gains or losses are reclassified into earnings as the underlying hedged item affects earnings, such as when the forecasted interest payment occurs. Assuming market rates remain unchanged from March 31, 2003, it is expected that $6.9 million of pre-tax net losses in AOCI will be reclassified into earnings within the next twelve months. As of March 31, 2003, the maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions is through August, 2005.

(6) New Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". The Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. The Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred. The asset retirement obligations will be capitalized as part of the carrying amount of the long-lived asset. The Statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and normal operation of long-lived assets. This Statement, which became effective January 1, 2003 for the Company, did not have a material effect on the Company's financial statements.

In April, 2002, the FASB issued SFAS No. 145, which rescinds SFAS No. 4 "Reporting Gains and Losses from Extinguishment of Debt", SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers", and SFAS No. 64, "Extinguishment of Debt Made to Satisfy Sinking Fund Requirements" (SFAS No. 145). SFAS No. 145 also amends SFAS No. 13, "Accounting for Leases" to eliminate an inconsistency between the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Any gain or loss that does not meet the criteria in APB Opinion 30 for classification as an extraordinary items shall be reclassified. This provision was adopted by the Company on January 1, 2003 and did not have a material effect on the Company's financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit of Disposal Activities." The Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The Statement generally requires that a cost associated with an exit or disposal activity be recognized and measured initially at its fair value in the period in which the liability is incurred. The Statement is effective for all exit or disposal activities initiated after December 31, 2002, and did not have a material effect on the Company's financial statements.

In November, 2002, the FASB issued Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees; including Guarantees of Indebtedness of Others”. This interpretation requires that a liability must be recognized at the inception of a guarantee issued or modified after December 31, 2002 whether or not payment under the guarantee is probable. This provision did not have a material effect on the Company’s financial statements.

In December, 2002, the FASB issued SFAS No. 148. “Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123”. This Statement amends FASB Statement No. 123, “Accounting for Stock-Based Compensation”, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosure in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to these consolidated financial statements, if applicable.

In January 2003, the FASB issued FASB Interpretation No. 46, “Consolidation of Variable Interest Entities an interpretation of ARB No. 51.” This Interpretation of Accounting Research Bulletin No. 51, “Consolidated Financial Statements”, addresses consolidation by business enterprises of variable interest entities. This Interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. As of March 31, 2003, the Company does not have any unconsolidated variable interest entities.

(7) Segment Reporting

The Company’s reportable operating segments consist of acute care hospital services (includes hospitals located in the U.S. and Puerto Rico), behavioral health care services and international acute care hospital services consisting of eleven hospitals located in France owned by an operating company in which the Company owns an 80% ownership interest. The operating results for the International Acute Care Hospitals were included in the "Other" segment in prior years. The segment data for the three month period ended March 31, 2002 has been restated to conform to the current year presentation. The financial and statistical data presented for the eleven hospitals located in France is for the three month periods ended February 28th as these facilities are included in the Company’s annual statements on the basis of the year ended November 30th. The “Other” segment column below includes centralized services including information services, purchasing, reimbursement, accounting, taxation, legal, advertising, design and construction, and patient accounting as well as the operating results for the Company’s other operating entities including outpatient surgery and radiation centers. The chief operating decision making group for the Company’s acute care hospital services, behavioral health care services and international acute care hospital services is comprised of the Company’s President and Chief Executive Officer, and the lead executives of each operating segment. 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 or operates in different healthcare environments. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies included in the Company’s Annual Report of Form 10-K for the year ended December 31, 2002.

	Three Months Ended March 31, 2003				
	Acute Care Hospital Services	Behavioral Health Services	International Acute Care Hospital Services	Other	Total Consolidated
	(Dollar amounts in thousands)				
Gross inpatient revenues	$ 1,509,452	$ 273,277	$ 37,357	$ 3,109	$ 1,823,195
Gross outpatient revenues	$ 510,743	$ 38,573	$ 4,393	$ 37,853	$ 591,562
Total net revenues	$ 676,238	$ 152,747	$ 44,640	$ 21,183	$ 894,808
Operating income (a)	$ 123,790	$ 33,504	$ 5,183	$ (13,518)	$ 148,959
Total assets as of 3/31/03	$ 1,720,586	$ 297,894	$ 197,068	$ 225,480	$ 2,441,028
Licensed beds	5,735	3,871	1,260	—	10,866
Available beds	4,900	3,727	1,260	—	9,887
Patient days	320,892	268,090	92,362	—	681,344
Admissions	68,115	21,954	18,605	—	108,674
Average length of stay	4.7	12.2	5.0	—	6.3

	Three Months Ended March 31, 2002				
	Acute Care Hospital Services	Behavioral Health Services	International Acute Care Hospital Services	Other	Total Consolidated
	(Dollar amounts in thousands)				
Gross inpatient revenues	$ 1,286,326	$ 242,379	$ 18,697	$ 2,823	$ 1,550,225
Gross outpatient revenues	$ 424,543	$ 38,300	$ 2,362	$ 35,163	$ 500,368
Total net revenues	$ 623,928	$ 142,121	$ 21,306	$ 17,016	$ 804,371
Operating income (a)	$ 110,346	$ 29,200	$ 4,626	$ (12,806)	$ 131,366
Total assets as of 3/31/02	$ 1,602,555	$ 284,648	$ 139,559	$ 167,615	$ 2,194,377
Licensed beds	5,846	3,749	1,083	—	10,678
Available beds	4,777	3,605	1,083	—	9,465
Patient days	323,304	248,968	82,801	—	655,073
Admissions	66,860	21,251	16,614	—	104,725
Average length of stay	4.8	11.7	5.0	—	6.3

(a) Operating income is defined as net revenues less salaries, wages & benefits, other operating expenses, supplies expense and provision for doubtful accounts. Below is a reconciliation of consolidated operating income to consolidated net income before income taxes:

	Three Months Ended March 31, (amounts in thousands)	
	2003	2002
Consolidated operating income	$ 148,959	$ 131,366
Less: Depreciation & amortization	34,537	29,408
Lease & rental expense	15,821	15,190
Interest expense, net	9,855	8,964
Gains on foreign exchange and derivative transactions	(6)	(234)
Minority interests in earnings of consolidated entities	5,030	5,873
Consolidated income before income taxes	$ 83,722	$ 72,165

(8) Earnings Per Share Data ("EPS") and Stock Based Compensation

Basic earnings per share are based on the weighted average number of common shares outstanding during the year. Diluted earnings per share are based on the weighted average number of common shares outstanding during the year adjusted to give effect to common stock equivalents.

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The following table sets forth the computation of basic and diluted earnings per share for the periods indicated (in thousands, except per share data):

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Basic:		
Net income	$ 52,790	$ 45,673
Weighted average number of common shares	58,277	59,862
Earnings per common share-basic	$ 0.91	$ 0.76
Diluted:		
Net income	$ 52,790	$ 45,673
Add discounted convertible debenture interest, net of income tax effect	2,177	2,092
Adjusted net income	$ 54,967	$ 47,765
Weighted average number of common shares	58,277	59,862
Net effect of dilutive stock options and grants based on the treasury stock method	742	609
Assumed conversion of discounted convertible debentures	6,577	6,577
Weighted average number of common shares and equivalents	65,596	67,048
Earnings per common share-diluted	$ 0.84	$ 0.71

Stock-Based Compensation: At March 31,2003, the Company has a number of stock-based employee compensation plans. The Company accounts for these plan under the recognition and measurement principles of APB Opinion No.25, "Accounting for Stock Issued to Employees," and related Interpretations. No compensation cost is reflected in net income for most stock option grants, as all options granted under the plan had an original exercise price equal to the market value of the underlying common shares on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No.123,"Accounting for Stock-Based Compensation," to stock-based employee compensation. The Company recognizes compensation cost related to restricted share awards over the respective vesting periods, using an accelerated method.

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
	(in thousands, except per share data)	
Net income	$ 52,790	$ 45,673
Add: total stock-based compensation expenses included in net income, net of tax of $293 in 2003 and $52 in 2002	500	90
Deduct: total stock-based employee compensation expenses determined under fair value based methods for all awards, net of tax of $1.1 million in 2003 and $1.1 million in 2002	(1,875)	(1,896)
Pro forma net income	$ 51,415	$ 43,867
Basic earnings per share, as reported	$ 0.91	$ 0.76
Basic earnings per share, pro forma	$ 0.88	$ 0.73
Diluted earnings per share, as reported	$ 0.84	$ 0.71
Diluted earnings per share, pro forma	$ 0.82	$ 0.69

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(9) Comprehensive Income

Comprehensive income represents net income plus the results of certain non-shareholders' equity changes not reflected in the Consolidated Statements of Income. The components of comprehensive income, net of income taxes, (except for foreign currency translation adjustments which are not currently adjusted for income taxes since they relate to indefinite investments in non-United States subsidiaries) are as follows (amounts in thousands):

	Three Months Ended March 31,	
	2003	2002
Net income	$ 52,790	$ 45,673
Other comprehensive income (loss):		
Foreign currency translation adjustments	479	(53)
Adjustment for losses reclassified into income (net of income tax effect of $658 in 2003 and $555 in 2002)	1,121	947
Unrealized derivative (losses)/gains on cash flow hedges (net of income tax effect of $557 in 2003 and $63 in 2002)	(951)	109
Comprehensive income	$ 53,439	$ 46,676

(10) Acquisitions & Dispositions

During the first quarter of 2003, the Company spent $45.5 million to acquire the assets and operations of: (i) a 108-bed behavioral health system in Anchorage, Alaska; (ii) two hospitals located in France that were purchased by an operating company which is 80% owned by the Company, and; (iii) an outpatient surgery center located in Oklahoma acquired by a limited partnership which is majority owned by the Company. Management has not completed the final purchase price allocations, however, Management does not believe they will differ significantly from the preliminary purchase price allocations at March 31, 2003. Also during the first quarter of 2003, the Company sold two radiation therapy centers for combined cash proceeds of $3.0 million. The net gain generated from sale of these centers did not have a material impact on the Company's financial statements.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Forward-Looking Statements and Certain Risk Factors

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 unfavorable changes in the levels and terms of reimbursement for the Company's charges by government programs, including Medicare or Medicaid or other third party payors; 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 nurses and physicians, the ability of the Company to successfully integrate its recent acquisitions; the Company's ability to finance growth on favorable terms; and, other factors referenced in the Company's 2002 Form 10-K or herein. Additionally, the Company's financial statements reflect large amounts due from various commercial payors and there can be no assurance that failure of the payors to remit amounts due to the Company will not have a material adverse effect on the Company's future results of operations. Also, the Company has experienced a significant increase in professional and general liability and property insurance expense caused by unfavorable pricing and availability trends of commercial insurance. As a result, the Company has assumed a greater portion of its liability risk and there can be no assurance that a continuation of these unfavorable trends, or a sharp increase in claims asserted against the Company which are self-insured, will not have a material adverse effect on the Company's future results of operations. Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. Management 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 11% to $895 million for the three months ended March 31, 2003 as compared to $804 million during the comparable prior year period. The $91 million increase in net revenues during the 2003 first quarter, as compared to the comparable prior year quarter, was attributable primarily to: (i) a $61 million or 8% increase in net revenues generated at acute care hospitals located in the U.S., Puerto Rico and France and behavioral health care facilities owned during both periods; (ii) $14 million of revenues generated at acute care hospitals located in France and behavioral health care facilities located in the U.S. purchased during the first quarter of 2003, and; (iii) $16 million of other increases in revenues (including $6 million resulting from financial statement reclassifications related to the French operations recorded during the first quarter of 2003, which had no effect on net income, resulting from conversion to U.S. GAAP from French GAAP).

Net revenues from the Company's acute care facilities, including the hospitals located in France, and ambulatory treatment centers accounted for 82% of the Company's consolidated net revenues during each of the three month periods ended March 31, 2003 and 2002. Net revenues from the Company's behavioral health services facilities accounted for 17% and 18% of consolidated net revenues during the three month periods ended March 31, 2003 and 2002, respectively.

Operating income (defined as net revenues less salaries, wages & benefits, other operating expenses, supplies expense and provision for doubtful accounts) increased 13% to $149 million for the three month period ended March 31, 2003 from $131 million in the comparable prior year quarter. Overall operating margins (defined as operating income divided by net revenues) were 16.6% and 16.3% during the three month periods ended March 31, 2003 and 2002, respectively. The increase in the overall operating margins during the three month period of 2003, as compared to the comparable prior year period, resulted primarily from a decrease in other operating expenses which decreased to 22.8% of net revenue during the 2003 first quarter as compared to 23.9% during the 2002 first quarter. This decrease resulted primarily from decreased pharmacy costs resulting from a new outsourcing agreement, that commenced during the third quarter of 2002, covering the provision of pharmacy services for the Company's acute care facilities located in the U.S. and Puerto Rico.

Below is a reconciliation of consolidated operating income to consolidated income before income taxes:

	Three Months Ended March 31, (amounts in thousands)	
	2003	**2002**
Consolidated operating income	$ 148,959	$ 131,366
Less: Depreciation & amortization	34,537	29,408
Lease & rental expense	15,821	15,190
Interest expense, net	9,855	8,964
Gains on foreign exchange and derivative transactions	(6)	(234)
Minority interests in earnings of consolidated entities	5,030	5,873
Provision for income taxes	30,932	26,492
Consolidated net income	$ 52,790	$ 45,673
Operating margin	16.6%	16.3%

Net income was $52.8 million during the three months ended March 31, 2003 as compared to $45.7 million in the comparable prior year quarter. The increase of approximately $7 million during the 2003 first quarter over the comparable prior year quarter was primarily attributable to: (i) an increase of approximately $10 million, after-tax, in operating income from acute care and behavioral health care facilities owned during both periods located in the U.S., Puerto Rico and France, due primarily to the factors described below in Acute Care Hospital Services and Behavioral Health Services; (ii) an increase of approximately $4 million, after-tax, in operating income from acute care and behavioral health care facilities acquired in France and the U.S. during 2003; (iii) unfavorable combined after-tax increase of $4 million in depreciation and amortization and net interest expense due primarily to the opening of the newly constructed George Washington University Hospital during the third quarter of 2002 and the acquisition during the first quarter of 2003 of a 108-bed behavioral health system in Anchorage, Alaska and, two hospitals located in France that were purchased by an operating company which is 80% owned by the Company, and; (iv) $3 million of other combined net decreases to net income.

Acute Care Hospital Services

On a same facility basis, net revenues at the Company's acute care hospitals located in the U.S. and Puerto Rico increased 8% in the 2003 first quarter as compared to the comparable 2002 quarter as admissions at these facilities increased 1.9%. Patient days at these facilities decreased 0.7% during the first quarter of 2003 as compared to the prior year quarter due to a decrease in the average length of stay to 4.7 days during the three months ended March 31, 2003 as compared to 4.8 days during the three months ended March 31, 2002.

The Company's same facility net revenues were favorably impacted by an increase in prices charged to private payors including health maintenance organizations and preferred provider organizations. On a same facility basis, net revenue per adjusted admission (adjusted for outpatient activity) at the Company's acute care facilities located in the U.S. and Puerto Rico increased 5.6% during the three month period ended March 31, 2003, respectively, as compared to the comparable prior year period. Net revenue per adjusted patient day at these facilities increased 8.4% during the three month period ended March 31, 2003 as compared to the comparable prior year period.

Despite the increase in patient volume at the Company's acute care hospitals, 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 increase in net revenue was negatively affected by lower payments from the government under the Medicare program as a result of the Balanced Budget Act of 1997 ("BBA-97") and discounts to insurance and managed care companies (see General Trends for additional disclosure). During the three month periods ended March 31, 2003 and 2002, 40**%** and 42%, respectively, of the net patient revenues at the Company's acute care facilities located in the U.S. and Puerto Rico were derived from Medicare and Medicaid (excludes revenues generated from managed Medicare and Medicaid programs). During the three month periods ended March 31, 2003 and 2002, 38**%** and 37%, respectively, of the net patient revenues at the Company's acute care facilities were derived from managed care companies which includes health maintenance organizations and managed Medicare and Medicaid programs. The Company anticipates that the percentage of its revenue from managed care business will continue to increase in the future. The Company generally receives lower payments per patient from managed care payors than it does from traditional indemnity insurers.

At the Company's acute care hospitals located in the US and Puerto Rico (on a same facility basis as all facilities were owned during both three month periods), operating expenses, (salaries, wages & benefits, other operating expenses, supplies expense and provision for doubtful accounts) as a percentage of net revenues were 81.7% and 82.3% for the three month periods ended March 31, 2003 and 2002, respectively. Operating margins (defined as net revenues less operating expenses divided by net revenues) at these facilities were 18.3% and 17.7% during the three month periods ended March 31, 2003 and 2002, respectively. Favorably impacting the operating margins at the Company's acute care hospitals located in the US and Puerto Rico during the 2003 quarter as compared to the comparable prior year quarter was a decrease in pharmacy costs resulting from a new outsourcing agreement, that commenced during the third quarter of 2002, covering the provision of pharmacy services for the Company's acute care facilities located in the US and Puerto Rico. Despite the increase in operating margins at these facilities during the first quarter of 2003 as compared to the comparable prior year quarter, the Company expects continued pressure on future operating margins.

Behavioral Health Services

Net revenues at the Company's behavioral health services facilities owned in both three month periods increased 4% during the three month period ended March 31, 2003 as compared to the comparable prior year quarter. Admissions and patient days at these facilities increased 2.3% and 4.1%, respectively, during the three month period ended March 31, 2003 as compared to the comparable prior year quarter. The average length of stay at the behavioral health services facilities owned in both periods increased to 11.9 days during the 2003 first quarter as compared to 11.7 days in the comparable prior year period. Net revenue per adjusted admission (adjusted for outpatient activity) at the Company's behavioral heath care facilities owned in both quarters increased 3.4% during the three month period ended March 31, 2003 as compared to the comparable prior year quarter. Net revenue per adjusted patient day at these facilities increased 1.7% during the first quarter of 2003 as compared to the prior year's first quarter.

Behavioral health facilities, which are generally excluded from the inpatient services PPS, are reimbursed on a reasonable cost basis by the Medicare program, but are generally subject to a per discharge ceiling, calculated based on an annual allowable rate of increase over the hospital's base year amount under the Medicare law and regulations. Capital-related costs are exempt from this limitation. In the BBA-97, Congress significantly revised the Medicare payment provisions for PPS-excluded hospitals, including behavioral health services facilities. Effective for Medicare cost reporting periods beginning on or after October 1, 1997, different caps are applied to behavioral health services hospitals' target amounts depending upon whether a hospital was excluded from PPS before or after that date, with higher caps for hospitals excluded before that date. Congress also revised the rate-of-increase percentages for PPS-excluded hospitals and eliminated the new provider PPS-exemption for behavioral health hospitals. In addition, the Health Care Financing Administration, now known as the Center for Medicare and Medicaid Services ("CMS"), has implemented requirements applicable to behavioral health services hospitals that share a facility or campus with another hospital. The BBRA of 1999 requires that CMS develop a per diem PPS for inpatient services furnished by behavioral health hospitals under the Medicare program, effective for cost reporting periods beginning on or after October 1, 2002. This PPS must include an adequate patient classification system that reflects the differences in patient resource use and costs among these hospitals and must maintain budget neutrality. However, Management of the Company expects the implementation of this PPS for inpatient services furnished by behavioral health hospitals to be delayed until the second quarter of 2004. Although Management of the Company believes the implementation of inpatient PPS may have a favorable effect on the Company's future results of operations, Management cannot predict the ultimate effect of behavioral health inpatient PPS on the Company's future operating results until the final provisions are finalized. During the three month periods ended March 31, 2003 and 2002, 35**%** and 33**%,** respectively, of the net patient revenues at the Company's behavioral health care facilities were derived from Medicare and Medicaid (excludes revenues generated from managed Medicare and Medicaid programs). During the three month periods ended March 31, 2003 and 2002**,** 51% and 45%, respectively, of the net patient revenues at the Company's behavioral health care facilities were derived from managed care companies which includes health maintenance organizations, preferred provider organizations and managed Medicare and Medicaid programs.

At the Company's behavioral health care facilities, operating expenses (salaries, wages & benefits, other operating expenses, supplies expense and provision for doubtful accounts) as a percentage of net revenues were 78.1% and 79.5% for the three month periods ended March 31, 2003 and 2002, respectively. Operating margins (defined as net revenues less operating expenses divided by net revenues) at these facilities were 21.9% and 20.5% during the three month periods ended March 31, 2003 and 2002, respectively. On a same facility basis, operating expenses as a percentage of net revenues were 78.6% and 79.5% during the three months periods ended March 31, 2003 and 2002, respectively. Operating margins at the Company's behavioral health facilities owned in both three month periods were 21.4% for the three months ended March 31, 2003 as compared to 20.5% during the comparable prior year quarter. In an effort to maintain and potentially further improve the operating margins at its behavioral health care facilities, Management of the Company continues to implement cost controls and price increases and has also increased its focus on receivables management.

Other Operating Results

Combined net revenues from the Company's other operating entities including outpatient surgery centers, radiation centers and an 80% ownership interest in an operating company that owns eleven acute care hospitals in France (two of which were acquired during the first quarter of 2003) were $61 million during the three months ended March 31, 2003 as compared to $36 million during the three months ended March 31, 2002. Combined operating margins decreased to 15.0% during the three month period ended March 31, 2003 as compared to 18.9% in the comparable prior year quarter due primarily to financial statement reclassifications related to the French operations recorded during the first quarter of 2003. This reclassification, which had no effect on net income, increased net revenues and supplies expense by approximately $6 million during the three month period ended March 31, 2003 and resulted from conversion to U.S. GAAP from French GAAP.

The Company recorded minority interest expense in the earnings of consolidated entities amounting to $5.0 million and $5.9 million for the three months ended March 31, 2003 and 2002, respectively. The minority interest expense includes the minority ownerships' share of the net income of four acute care facilities located in the U.S., three of which are located in Las Vegas, Nevada and one located in Washington, D.C, and eleven acute care facilities located in France.

Depreciation and amortization expense increased to $34.5 million during the first quarter of 2003 as compared to $29.4 million during the first quarter of 2002. The $5.1 million increase resulted primarily from the depreciation expense related to the newly constructed George Washington University Hospital which opened during the third quarter of 2002 and the acquisition during the first quarter of 2003 of a 108-bed behavioral health system in Anchorage, Alaska and two hospitals located in France that were purchased by an operating company which is 80% owned by the Company.

The effective tax rate was 36.9% and 36.7% for the three months ended March 31, 2003 and 2002, respectively.

General Trends

A significant portion of the Company’s revenue is derived from federal and state healthcare programs, including Medicare and Medicaid (excluding managed Medicare and Medicaid programs), which accounted for 39% and 41% of the Company’s net patient revenues during the three month periods ended March 31, 2003 and 2002, respectively. Under the statutory framework of the Medicare and Medicaid programs, many of the Company’s operations are subject to administrative rulings, interpretations and discretion which may affect payments made under either or both of such programs. In addition, reimbursement is generally subject to audit and review by third party payors. Management believes that adequate provision has been made for any adjustment that might result therefrom.

The federal government makes payments to participating hospitals under its Medicare program based on various formulas. The Company’s general acute care hospitals are subject to a prospective payment system (“PPS”). For inpatient services, PPS pays hospitals a predetermined amount per diagnostic related group (“DRG”), for which payment amounts are adjusted to account for geographic wage differences. Beginning August 1, 2000 under an outpatient prospective payment system (“OPPS”) mandated by Congress in the Balanced Budget Act of 1997 (“BBA-97”), both general acute and behavioral health hospitals are paid for outpatient services included in the OPPS according to ambulatory procedure codes (“APC”), which group together services that are comparable both clinically and with respect to the use of resources. The payment for each item or service is determined by the APC to which it is assigned. The APC payment rates are calculated on a national basis and adjusted to account for certain geographic wage differences. The Medicare, Medicaid and SCHIP Balanced Budget Refinement Act of 1999 (“BBRA of 1999”) included “transitional corridor payments” through fiscal year 2003, which provide some financial relief for any hospital that generally incurs a reduction to its Medicare outpatient reimbursement under the new OPPS. The Company expects to receive approximately $2.5 million of transitional corridor payments during 2003.

Behavioral health facilities, which are generally excluded from the inpatient services PPS are reimbursed on a reasonable cost basis by the Medicare program, but are generally subject to a per discharge ceiling, calculated based on an annual allowable rate of increase over the hospital’s base year amount under the Medicare law and regulations. Capital-related costs are exempt from this limitation. In the BBA-97, Congress significantly revised the Medicare payment provisions for PPS-excluded hospitals, including behavioral health services facilities. Effective for Medicare cost reporting periods beginning on or after October 1, 1997, different caps are applied to behavioral health services hospitals’ target amounts depending upon whether a hospital was excluded from PPS before or after that date, with higher caps for hospitals excluded before that date. Congress also revised the rate-of-increase percentages for PPS-excluded hospitals and eliminated the new provider PPS-exemption for behavioral health hospitals. In addition, the Health Care Financing Administration, now known as the Center for Medicare and Medicaid Services (“CMS”), has implemented requirements applicable to behavioral health services hospitals that share a facility or campus with another hospital. The BBRA of 1999 requires that CMS develop a per diem PPS for inpatient services furnished by behavioral health hospitals under the Medicare program, effective for cost reporting periods beginning on or after October 1, 2002. This PPS must include an adequate patient classification system that reflects the differences in patient resource use and costs among these hospitals and must maintain budget neutrality. However, Management of the Company expects the implementation of this PPS for inpatient services furnished by behavioral health hospitals to be delayed until the second quarter of 2004. Although Management of the Company believes the implementation of inpatient PPS may have a favorable effect on the Company’s future results of operations, Management cannot predict the ultimate effect of behavioral health inpatient PPS on the Company’s future operating results until the provisions are finalized.

In addition to the trends described above that continue to have an impact on the Company’s operating results, there are a number of other more general factors affecting the Company’s business. BBA-97 called for the government to trim the growth of federal spending on Medicare by $115 billion and on Medicaid by $13 billion over the ensuing 5 years. This enacted legislation also called for reductions in the future rate of increases to payments made to hospitals and reduced the amount of payments for outpatient services, bad debt expense and capital costs. Some of these reductions were temporarily reversed with the passage of the Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 ("BIPA") which, among other things, increased Medicare and Medicaid payments to healthcare providers by $35 billion over the ensuing 5 years with approximately $12 billion of this amount targeted for hospitals and $11 billion for managed care payors. However, many of the payment reductions reversed by Congress in BIPA are expiring. In fiscal year 2003, hospitals are receiving less than a full market basket inflation adjustment for services paid under the inpatient PPS (inpatient PPS update of the market basket minus 0.55 percentage points is 2.95% in fiscal year 2003), although CMS estimates that for the same time period, Medicare payment rates under OPPS will increase, for each service, by an average of 3.7%. In February, 2003, the federal fiscal year 2003 omnibus spending federal legislation was signed into law. This legislation includes approximately $800 million in increased spending for hospitals. More specifically, $300 million of this amount is targeted for rural and certain urban hospitals effective for the period of April, 2003 through September, 2003. Certain of the Company's hospitals are eligible for and are expected to receive the increased Medicare reimbursement resulting from this legislation, which the Company estimates will amount to approximately $3 million during 2003.

Certain Medicare inpatient hospital cases with extraordinarily high costs in relation to other cases within a given DRG may receive an additional payment from Medicare ("Outlier Payments"). In general, to qualify for the additional Outlier Payments, the gross charges associated with an individual patient's case must exceed the applicable DRG plus a threshold established annually by CMS. In the federal 2003 fiscal year, the unadjusted Outlier Payment threshold increased to $33,560 from $21,025. Outlier Payments are currently subject to multiple factors including but not limited to: (i) the hospital's estimated operating costs based on its historical ratio of costs to gross charges; (ii) the patient's case acuity; (iii) the CMS established threshold, and; (iv) the hospital's geographic location. However, in February, 2003, CMS issued a proposed rule that would change the outlier formula in an effort to promote more accurate spending for outlier payments to hospitals. Management of the Company ultimately believes the increase in the Outlier Payments threshold and potential change in the Outlier Payment methodology will result in a decrease in the overall Outlier Payments expected to be received by the Company during the 2003 federal fiscal year. This decrease is expected to substantially offset the increase in Medicare payments resulting from the market basket inflation adjustment as mentioned above. The Company's total Outlier Payments in 2002 were less than 1% of its consolidated net revenues and Management expects that Outlier Payments in 2003 will amount to less than 0.5% of the Company's consolidated net revenues.

Within certain limits, a hospital can manage its costs, and to the extent this is done effectively, a hospital may benefit from the DRG system. However, many hospital operating costs are incurred in order to satisfy licensing laws, standards of the Joint Commission on the Accreditation of Healthcare Organizations ("JCAHO") and quality of care concerns. In addition, hospital costs are affected by the level of patient acuity, occupancy rates and local physician practice patterns, including length of stay and number and type of tests and procedures ordered. A hospital's ability to control or influence these factors which affect costs is, in many cases, limited.

In addition to revenues received pursuant to the Medicare program, the Company receives a large portion of its revenues either directly from Medicaid programs or from managed care companies managing Medicaid with a large concentration of the Company's Medicaid revenues received from Texas, Pennsylvania and Massachusetts. The Company can provide no assurance that reductions to Medicaid revenues, particularly in the above-mentioned states, will not have a material adverse effect on the Company's future results of operations. Furthermore, the Company can provide no assurances that future reductions to federal and/or state budgets that contain certain further reductions or decreases in the rate of increase of Medicare and Medicaid spending, will not adversely affect the Company's future operations.

In 1991, the Texas legislature authorized the LoneSTAR Health Initiative, a pilot program in two areas of the state, to establish for Medicaid beneficiaries a healthcare delivery system based on managed care principles. The program is now known as the STAR program, which is short for State of Texas Access Reform. Since 1995, the Texas Health and Human Services Commission, with the help of other Texas agencies such as the Texas Department of Health, has rolled out STAR Medicaid managed care pilot programs in several geographic areas of the state. Under the STAR program, the Texas Department of Health either contracts with health maintenance organizations in each area to arrange for covered services to Medicaid beneficiaries, or contracts directly with healthcare providers and oversees the furnishing of care in the role of the case manager. Two carve-out pilot programs are the STAR+PLUS program, which provides long-term care to elderly and disabled Medicaid beneficiaries in the Harris County service area, and the NorthSTAR program, which furnishes behavioral health services to Medicaid beneficiaries in the Dallas County service area. The Texas Health and Human Services Commission is currently seeking a waiver to extend a limited Medicaid benefits package to low income persons with serious mental illness. The waiver is limited to individuals residing in Harris County or the NorthSTAR service areas. Effective in the fall of 1999, however, the Texas legislature imposed a moratorium on the implementation of additional pilot programs until the 2001 legislative session. While Texas Senate Bill 1, effective September 1, 2001, directed the Texas Health and Human Services Commission to implement Medicaid cost containment measures including a statewide rollout of the primary care case management program in non-STAR areas, expansion of this program has been delayed in response to concerns from hospitals and physicians. Although no legislation has passed yet, such actions could have a material unfavorable impact on the reimbursement the Texas hospitals receive during the period of September, 2003 to September, 2005.

Upon meeting certain conditions, and serving a disproportionately high share of Texas' and South Carolina's low income patients, five 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 ("DSH") fund. In order to receive DSH funds, the facility must qualify to receive such payments. To qualify for DSH funds in Texas, the facility must have either a disproportionate total number of inpatient days for Medicaid patients, a disproportionate percentage of all inpatient days that are for Medicaid patients, or a disproportionate percentage of all inpatient days that are for low-income patients. Included in the Company's financial results was an aggregate of $6.3 million and $8.4 million for the three month periods ended March 31, 2003 and 2002, respectively, related to DSH programs. The Office of Inspector General recently published a report indicating that Texas Medicaid may have overpaid Texas hospitals for DSH payments. Although it is not yet clear how this issue will be resolved, it may have an adverse effect on the Company's hospitals located in Texas that have significant Medicaid populations. Both states have renewed their programs for the 2003 fiscal years, however, failure to renew these programs beyond their scheduled termination date (June 30, 2003 for South Carolina and August 31, 2003 for Texas), failure to qualify for DSH funds under these programs, or reductions in reimbursements (including reductions related to the potential Texas Medicaid overpayments mentioned above), could have a material adverse effect on the Company's 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. 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.

Pressures to control health care costs and a shift away from traditional Medicare to Medicare managed care plans have resulted in an increase in the number of patients whose health care coverage is provided under managed care plans. Approximately 40% and 39% for the three month periods ended March 31, 2003 and 2002, respectively, of the Company's net patient revenues were generated from managed care companies, which includes health maintenance organizations, preferred provider organizations and managed Medicare and Medicaid programs. In general, the Company expects the percentage of its business from managed care programs to continue 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. Typically, the Company receives lower payments per patient from managed care payors than it does from traditional indemnity insurers, however, during the past few years, the Company secured price increases from many of its commercial payors including managed care companies.

Due to unfavorable pricing and availability trends in the professional and general liability insurance markets, the Company's subsidiaries have assumed a greater portion of the hospital professional and general liability risk as the cost of commercial professional and general liability insurance coverage has risen significantly. As a result, effective January 1, 2002, most of the Company's subsidiaries were self-insured for malpractice exposure up to $25 million per occurrence. The Company on behalf of its subsidiaries, purchased an umbrella excess policy through a commercial insurance carrier for coverage in excess of $25 million per occurrence with a $75 million aggregate limitation. Given these insurance market conditions, there can be no assurance that a continuation of these unfavorable trends, or a sharp increase in claims asserted against the Company, will not have a material adverse effect on the Company's future results of operations.

For the period from January 1, 1998 through December 31, 2001, most of the Company's subsidiaries were covered under commercial insurance policies with PHICO, a Pennsylvania based insurance company that was placed into liquidation during the first quarter of 2002. As a result of PHICO's liquidation, the Company recorded a $40 million pre-tax charge during the fourth quarter of 2001. PHICO continues to have substantial liability to pay claims on behalf of the Company and although those claims could become the Company's liability, the Company may be entitled to receive reimbursement from state insurance guaranty funds and/or PHICO's estate for a portion of certain claims ultimately paid by the Company. The Company expects that the cash payments related to these claims will be made over the next seven years as the cases are settled or adjudicated. In estimating the $40 million pre-tax charge, the Company evaluated all known factors, however, there can be no assurance that the Company's ultimate liability will not be materially different than the estimated charge recorded. Additionally, if the ultimate PHICO liability assumed by the Company is substantially greater than the established reserve, there can be no assurance that the additional amount required will not have a material adverse effect on the Company's future results of operations.

As of March 31, 2003, the total accrual for the Company's professional and general liability claims, including all PHICO related claims was $165.7 million ($128.7 million net of expected recoveries from state guaranty funds), of which $12 million is included in other current liabilities. As of December 31, 2002, the total reserve for the Company's professional and general liability claims was $168.2 million ($131.2 million net of expected recoveries from state guaranty funds), of which $12 million is included in other current liabilities. Included in other assets as of March 31, 2003 and December 31, 2002 is $37.0 million related to estimated expected recoveries from various state guaranty funds in connection with PHICO related professional and general liability claims payments.

In April, 2003, the Food and Drug Administration approved the use of drug-eluting stents in certain cardiac procedures. Although Management does not expect the use of these stents to have a material adverse impact on its future results of operations, it can provide no definitive assurance until some experience with the new stents is gained.

Privacy and Security Requirements under the Health Insurance Portability and Accountability Act of 1996

The Health Insurance Portability and Accountability Act ("HIPAA") was enacted in August, 1996 to assure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health information and enforce standards for health information. Provisions not yet finalized are required to be implemented two years after the effective date of the regulation. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. Regulations related to HIPAA are expected to impact the Company and others in the healthcare industry by:

(i) Establishing standardized code sets for financial and clinical electronic data interchange ("EDI") transactions to enable more efficient flow of information. Currently there is no common standard for the transfer of information between the constituents in healthcare and therefore providers have had to conform to each standard utilized by every party with which they interact. One of the goals of HIPAA is to create one common national standard for EDI and once the HIPAA regulation takes effect, payors will be required to accept the national standard employed by providers. The final regulations establishing electronic data transmission standards that all healthcare providers must use when submitting or receiving certain healthcare transactions electronically were published in August, 2000 and compliance with these regulations is required by October, 2003, if a request for a one-year extension for compliance was properly submitted to the Department of Health and Human Services. The Company was granted the one-year extension.

(ii) Mandating the adoption of security standards to protect the confidentiality and privacy of health information. Prior to HIPAA there were no federally recognized healthcare standards governing the privacy of health information that includes all the necessary components to protect the data integrity and confidentiality of a patient's electronically maintained or transmitted personal health record. The final modifications to the privacy regulations were published in August, 2002. Most covered entities were required to comply with the privacy regulations by April, 2003, and the Company believes that it is in compliance.

(iii) Creating unique identifiers for the four constituents in healthcare: payors, providers, patients and employers. HIPAA will mandate the need for the unique identifiers for healthcare providers in an effort to ease the administrative challenge of maintaining and transmitting clinical data across disparate episodes of patient care.

(iv) Requiring covered entities to establish procedures and mechanisms to protect the confidentiality, integrity and availability of electronic protected health information. The rule requires covered entities to implement administrative, physical and technical safeguards to protect electronic protected health information that they receive, store or transmit. Most covered entities will have until April, 2005 to comply with these security standards. The Company believes that it will be able to comply, however, the cost of compliance cannot yet be ascertained.

The Company is in the process of implementation of the necessary changes required pursuant to the terms of HIPAA. The Company expects that the implementation cost of the HIPAA related modifications 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 $81 million during the three months ended March 31, 2003 and $57 million during the comparable prior year period. The $24 million net increase during the 2003 first quarter as compared to the 2002 comparable quarter was primarily attributable to: (i) a favorable $13 million change due to an increase in net income plus the addback of adjustments to reconcile net cash provided by operating activities (depreciation & amortization, accretion of discount on convertible debentures and gains on foreign exchange and derivative transactions); (ii) a $19 million favorable change in accounts receivable; (iii) a $36 million unfavorable change in other working capital accounts due primarily to the timing of accounts payable disbursements; (iv) a $21 million favorable change in other assets and deferred charges, and; (v) a $7 million favorable change due to the timing of income tax payments.

The Company spent approximately $40 million during the first quarter of 2003 compared to $41 million during the first quarter of 2002 to finance capital expenditures. The Company expects to spend an additional $180 million to $190 million during the remaining nine months of 2003 to finance capital expenditures thereby making the estimated capital expenditures for the full year of 2003 approximately $220 million to $230 million. Included in the 2003 actual and projected capital expenditures are the capital costs related to construction of a new 176-bed acute care hospital located in Las Vegas, Nevada (scheduled to be completed in the fourth quarter of 2003), a major new cardiology wing and 90-bed expansion of Northwest Texas Healthcare System located in Amarillo, Texas (scheduled to be completed in the fourth quarter of 2003) and construction of a new 120-bed acute care hospital in Manatee County, Florida (scheduled to open in the second quarter of 2004).

During the first quarter of 2003, the Company spent $45.5 million to acquire the assets and operations of: (i) a 108-bed behavioral health system in Anchorage, Alaska; (ii) two hospitals located in France that were purchased by an operating company which is 80% owned by the Company, and; (iii) an outpatient surgery center located in Oklahoma acquired by a limited partnership which is majority owned by the Company. Also during the first quarter of 2003, the Company sold two radiation therapy centers for combined cash proceeds of $3.0 million. The net gain generated from sale of these centers did not have a material impact on the Company's financial statements.

From time to time the Company enters into agreements with respect to the acquisitions of healthcare facilities. The Company currently has agreed to make acquisitions which, if consummated, will result in the expenditure of approximately $125 million during 2003. The consummation of these acquisitions is subject to significant conditions and there is no assurance any of them will be consummated.

As of March 31, 2003, the Company had $309 million of unused borrowing capacity under the terms of its $400 million unsecured non-amortizing revolving credit agreement, which expires in December, 2006. The agreement includes a $50 million sublimit for letters of credit of which $24 million was available at March 31, 2003. The interest rate on borrowings is determined at the Company's option at the prime rate, certificate of deposit rate plus .925% to 1.275%, LIBOR plus .80% to 1.15% or a money market rate. A facility fee ranging from .20% to .35% is required on the total commitment. The margins over the certificate of deposit, the Euro-dollar rates and the facility fee are based upon the Company's leverage ratio. As of March 31, 2003, the applicable margins over the certificate of deposit and the Euro-dollar rate were 1.125% and 1.00%, respectively, and the commitment fee was .25%. There are no compensating balance requirements.

As of March 31, 2003, the Company had no unused borrowing capacity under the terms of its $100 million, annually renewable, commercial paper program. The majority of the Company's acute care patient receivables are pledged as collateral to secure this commercial paper program. A commitment fee of .40% is required on the used portion and .20% on the unused portion of the commitment. This annually renewable program, which began in November, 1993, is scheduled to expire or be renewed in October of each year. Outstanding amounts of commercial paper which can be refinanced through available borrowings under the Company's revolving credit agreement are classified as long-term.

During 2002, a majority-owned subsidiary of the Company entered into a senior line of credit agreement denominated in Euros amounting to 45.8 million Euros ($49.4 million based on the end of period currency exchange rate). The loan, which is non-recourse to the Company, amortizes to zero over the life of the agreement and matures on December 31, 2007. Interest on the loan is at the option of the Company's majority-owned subsidiary and can be based on the one, two, three or six month EURIBOR plus a spread of 2.5%.

The Company has two floating rate swaps having a combined notional principal amount of $60 million in which the Company receives a fixed rate of 6.75% and pays a floating rate equal to 6 month LIBOR plus a spread. The term of these swaps is ten years and they are both scheduled to expire on November 15, 2011. During the three months ended March 31, 2003, the Company recorded a decrease of $684,000 in other non-current liabilities to recognize the fair value of these swaps and a $684,000 increase in long-term debt to recognize the difference between the carrying value and fair value of the related hedged liability.

As of March 31, 2003, **t**he Company has one fixed rate swap with a notional principal amount of $125 million which expires in August, 2005. The Company pays a fixed rate of 6.76% and receives a floating rate equal to three month LIBOR. As of March 31, 2003, the floating rate on this $125 million interest rate swaps was 1.34**%.** Also as of March 31, 2003, a majority-owned subsidiary of the Company had two interest rate swaps denominated in Euros. The two interest rate swaps are for a total notional amount of 41.2 million Euros ($44.4 million based on the end of period currency exchange rate). The notional amount decreases to 35.0 million Euros ($37.7 million) on December 30, 2003, 27.5 million Euros, ($29.6 million) on December 30, 2004 and the swap matures on June 30, 2005. The Company pays an average fixed rate of 4.35% and received six month EURIBOR. The effective floating rate for these swaps as of March 31, 2003 was 3.50**%**

During the three months ended March 31, 2003 and 2002, the Company recorded in accumulated other comprehensive income ("AOCI"), pre-tax gains of $270,000 ($170,000 after-tax) and $1.7 million ($1.1

million after-tax), respectively, to recognize the change in fair value of all derivatives that are designated as cash flow hedging instruments. The gains or losses are reclassified into earnings as the underlying hedged item affects earnings, such as when the forecasted interest payment occurs. Assuming market rates remain unchanged from March 31, 2003, it is expected that $6.9 million of pre-tax net losses in AOCI will be reclassified into earnings within the next twelve months. As of March 30, 2003, the maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions is through August, 2005**.**

The Company's total debt as a percentage of total capitalization was 44% at March 31, 2003 and 43% at December 31, 2002.

During 1998 and 1999, the Company's Board of Directors approved stock purchase programs authorizing the Company to purchase up to 12 million shares of its outstanding Class B Common Stock on the open market at prevailing market prices or in negotiated transactions off the market. Pursuant to the terms of these programs, the Company purchased approximately 591,000 shares during the three months ended March 31, 2003 at an average purchase price of $38.17 per share ($22.5 million in the aggregate). Since inception of the stock purchase program in 1998 through March 31, 2003, the Company purchased a total of 10.1 million shares at an average purchase price of $23.63 per share ($238.9 million in the aggregate).

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the quantitative and qualitative disclosures in 2003. Reference is made to Item 7 in the Annual Report on Form 10-K for the year ended December 31, 2002.

Item 4. Controls and Procedures

Within the 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our CEO and CFO of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) required to be included in this filing. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date we carried out this evaluation.

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PART II. OTHER INFORMATION

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

10.1 Agreement dated as of March 31, 2003 by and between Kirk E. Gorman and the Company.

99.1 Certification from the Company’s Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.2 Certification from the Company’s Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

1) Report on Form 8-K dated February 13, 2003, reported under Item 5, Other Events, that the Company issued a press release announcing the Company’s final financial results for the full year ended December 31, 2002 and the appointment of Steve Filton as the Company’s Chief Financial Officer.

2) Report on Form 8-K dated February 14, 2003, reported under Item 9, Regulation FD Disclosure, that the Company issued a press release releasing copies of written communication from Kirk Gorman to KPMG referred to in the Company’s press release dated February 14, 2003.

3) Report on Form 8-K dated February 20, 2003, reported under Item 9, Regulation FD Disclosure, that the Company issued a press release announcing that it had been advised that the Philadelphia District Office of the Securities and Exchange Commission has initiated an informal inquiry arising out of the previously announced departure of Kirk Gorman as Chief Financial Officer of the Company.

11. Statement re computation of per share earnings is set forth in Note 8 of the Notes to Condensed Consolidated Financial Statements.

All other items of this Report are inapplicable.

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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: May 12, 2003

/s/ ALAN B. MILLER

Alan B. Miller, President and
Chief Executive Officer

/s/ STEVE FILTON

Steve Filton, Vice President,
Chief Financial Officer and Controller
(Principal Financial Officer and Duly Authorized Officer).

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CERTIFICATION-Chief Executive Officer

I, Alan B. Miller certify that:

1. I have reviewed this quarterly report on Form 10-Q of Universal Health Services, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ ALAN B. MILLER

Alan B. Miller
President and Chief Executive Officer

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CERTIFICATION-Chief Financial Officer

I, Steve Filton certify that:

1. I have reviewed this quarterly report on Form 10-Q of Universal Health Services, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ STEVE FILTON

Steve Filton
Vice President, Chief
Financial Officer and Controller

Exhibit 10.1

AGREEMENT

AGREEMENT made as of the 31st day of March, 2003 (hereinafter referred to as the "Agreement"), by and between Kirk E. Gorman, (hereinafter referred to as "Employee") and Universal Health Services, Inc. (hereinafter referred to as the "Company").

W I T N E S S E T H :

WHEREAS, Employee was the Chief Financial Officer of the Company, and an officer of the Company; and

WHEREAS, Employee ceased being the Chief Financial Officer and an officer of the Company on February 11, 2003; and

WHEREAS, the Company and Employee now desire to resolve amicably all outstanding issues, rights and obligations by and between them and to embody those understandings in this Agreement.

NOW, THEREFORE, in consideration of the premises and of the representations, promises and obligations herein contained, the parties hereto agree as follows:

1. The Company agrees to pay Employee a special payment in the amount of $ 440,000.00, less applicable withholding and employee deductions, within five business days hereof. It is understood that this payment consists of payment for any and all amounts which may be owed to Employee by the Company through date of this Agreement, including but not limited to, any bonus which the Company may elect to pay him for 2002, and all accrued vacation time which Employee has not used. In addition, the Company agrees to reimburse Employee for those reasonable documented business expenses incurred by Employee through

March 31, 2003 (in an amount not to exceed $1,200) in accordance with the Company's reimbursement policies.

2. Employee shall be employed by the Company from the date of this Agreement through November 30, 2003 (the "Employment Period"), at the rate of $350,000 per annum, provided that Employee is not terminated for "cause." Payments shall be made to the Employee in accordance with the Company's regular procedures. Cause shall consist of (i) the commission of any illegal or immoral act by Employee, (ii) willful failure to follow Company policies or directions of the Chief Executive Officer as provided by the terms of this Agreement, upon 10 days' written notice to cure and Employee's subsequent failure to cure, or (iii) the material breach of the material terms of this Agreement, including the failure to make the timely payment to the Company provided in paragraph 3 hereof. During the Employment Period, Employee will report directly to the President and Chief Executive Officer, and will perform such duties as are assigned to him by and at the discretion of the Company's Chief Executive Officer or Board of Directors (the "Board"), including without limitation advising the Company with respect to its operations within France. It is agreed that such duties shall, in substance, not be substantially different than the duties currently performed by Employee. Employee shall make himself available to the Company on a reasonable basis but shall not report to the Company's offices unless required by the Chief Executive Officer, and Employee shall not be required to work more than 30 hours per week or 90 hours in a month. At the request of the Chief Executive Officer, Employee will travel to France in accordance with the Company's travel and reimbursement policies to carry out his responsibilities under this Agreement. It is understood that during the Employment Period, Employee may engage in other activities, including outside employment, provided he is able

to perform his obligations under this Agreement. The Company and Employee further understand and agree that the Company may, as its sole option, request that the Employee provide consulting services to the Company for a 6-month period to commence on December 1, 2003. The Employee's compensation for any such consulting services would be at the rate of $350,000 per annum.

3. On or before April 30, 2003 (time being of the essence), Employee shall repay to the Company in immediately available funds $736,082.00, which amount represents the payment due under stock option loans due on or after November 30, 2003 as set forth on Exhibit A hereto. During the Employment Period, to the extent that Employee remains employed with the Company, the remaining stock option loans from the Company to Employee set forth on Exhibit A hereto shall continue to be forgiven in accordance with the terms of the loan, but any loans remaining outstanding at the end of the Employment Period or other termination of employment shall be repaid upon such termination in immediately available funds. With respect to any stock option loans that have been forgiven prior to the date of this Agreement, the Company shall return to Employee the original promissory notes, each to be marked "canceled," within five business days of this Agreement. Additionally, the Company shall return to Employee each original promissory note paid or forgiven after March 31, 2003 within five business days of the payment or forgiveness (each such note also to be marked "canceled").

4. The Company and Employee agree that all restricted stock which has been granted to Employee pursuant to the Employee Restricted Stock Plan and any outstanding stock options granted to Employee pursuant to the 1992 Stock Option Plan as amended shall be canceled on the date hereof, whether vested or unvested, and shall not be exercisable by

the Employee. All other agreements between Employee and the Company, other than this Agreement, the promissory notes representing the stock option loans and the indemnification rights set forth in Paragraph 6 hereof shall be terminated. Notwithstanding anything in this paragraph to the contrary, it is further understood and agreed to by the parties that this paragraph and this Agreement do not affect, terminate or modify (a) the Employee's rights to or eligibility for indemnification under the Restated Certificate of Incorporation or By-Laws of the Company, any Director and Officer insurance policy that the Company may have in effect, or as provided by statute or law; or (b) the Employee's rights under any tax-qualified pension or 401(k) plan or the UHS, Inc. Supplemental Deferred Compensation Plan.

5. During the Employment Period, except as expressly provided herein, Employee will not be eligible to receive all of the benefits which he is currently receiving. During the Employment Period, Employee will be entitled to participate in the medical, life or other insurance plans available to employees of the Company generally and the Company will continue to pay the same portion of the Employee's premiums for such insurance plans that it currently pays.

6. Employee for himself and for the executors and administrators of his estate, his heirs, successors and assigns, hereby releases and forever discharges the Company and its subsidiaries and affiliates, and its or their officers, directors, employees, agents, attorneys and stockholders and the respective executors, administrators, heirs, successors and assigns of the foregoing, from any and all claims, actions, causes of action, suits, sums of money, debts, dues, accounts, reckonings, bonds, bills, covenants, contracts, controversies, agreements, promises, demands or damages of any nature whatsoever or by reason of any matter, cause or thing regardless of whether known or unknown at present, which against the Company and its

subsidiaries and affiliates or any of its or their officers, directors, employees, agents, attorneys and stockholders Employee ever had, now has or hereafter can, shall or may have for, upon, or by reason of, any matter, cause or thing whatsoever from the beginning of the world to the date hereof including, but not limited to, any matter relating to or arising out of the employment of Employee or termination thereof under any contract, tort, federal, state or local fair employment practices or civil rights law including, but not limited to, Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act, the Age Discrimination in Employment Act, the Older Workers Benefits Protection Act, the Pennsylvania Human Rights Law, the Pennsylvania Labor Law, the federal Family and Medical Leave Act, or any claim for physical or emotional distress or injuries, or any other duty or obligation of any kind or description, including any implied covenant of good faith and fair dealing, implied contract of permanent employment or the tortious or willful discharge of employment, provided, however, that nothing in this release shall preclude Employee from enforcing any of his rights or entitlement to benefits hereunder or exercising any rights to indemnification to which he may be entitled under the Restated Certificate of Incorporation or By-laws of the Company or under any Director and Officer insurance policy that the Company may have in effect, or as provided by statute or law. The parties also agree that notwithstanding anything in this paragraph to the contrary, the Employee is not releasing any rights under any tax-qualified pension or 401(k) plan or the UHS, Inc. Supplemental Deferred Compensation Plan. This Agreement does not either affect the rights and responsibilities of the Equal Employment Opportunity Commission to enforce the Age Discrimination in Employment Act, or justify interfering with the protected right of an employee to file a charge or participate in an investigation or proceeding conducted by the

Equal Employment Opportunity Commission under the Age Discrimination in Employment Act. In the event the Equal Employment Opportunity Commission commences a proceeding against the Company in which Employee is a named party, Employee agrees to waive and forego any monetary claims which may be alleged by the Equal Employment Opportunity Commission to be owed to Employee. The Company, for itself, and for its subsidiaries, affiliates, successors and assigns, hereby releases and forever discharges the Employee and his executors, administrators, heirs, successors and assigns, from any and all claims, actions, causes of action, suits, sums of money, debts, dues, accounts, reckonings, bonds, bills, covenants, contracts, controversies, agreements, promises, demands or damages of any nature whatsoever or by reason of any matter, cause or thing regardless of whether known or unknown at present, which against the Employee, the Company or its subsidiaries or affiliates ever had, now has or hereafter can, shall or may have for, upon, or by reason of, any matter, cause or thing whatsoever from the beginning of the world to the date hereof to the extent it relates to or arises out of the issues relating to the termination of Employee as publicly disclosed by the Company. The Company further represents that it, through its executive officers, members of its Board of Directors or outside counsel, has no knowledge of any fact or circumstance which gives rise to a claim or potential claim that the Company has against such Employee relating to any other matter. Notwithstanding anything in this paragraph to the contrary, neither the Company nor the Employee releases any rights or obligations each may have under this Agreement.

7. Employee acknowledges that, during the course of his employment, he has had access to confidential and proprietary information, documents and other materials relating to the Company which are not generally known to persons outside the Company (whether

conceived or developed by Employee or others) and confidential information, documents and other materials entrusted to the Company by third parties, including, without limitation, financial information, trade secrets, techniques, know-how, marketing and other business plans, customer lists, data, strategies and forecasts, and the substance of arrangements and agreements with customers, suppliers and others (collectively, “Confidential Information”). Information known by Employee prior to his employment with the Company will not be considered to be Confidential Information hereunder. Any Confidential Information conceived or developed by Employee during the period of his employment is the exclusive property of the Company. Except as specifically authorized by the Company, Employee will not disclose Confidential Information to any third person, firm or entity or use Confidential Information for his own purposes or for the benefit of any third person, firm or entity other than (1) as may be legally required in response to any summons, order or subpoena issued by a court or governmental agency, or (2) Confidential Information which is or becomes available to the general public through no act or failure to act by Employee.

8. Employee agrees that during the Employment Period and for one year thereafter, he will not, directly or indirectly, (i) request or cause any suppliers, customers or clients of the Company to cancel or terminate any business relation with the Company, or (ii) solicit, induce or otherwise attempt to influence any employee of the Company or any subsidiary or other affiliate thereof to leave employment therewith; provided that any solicitation through a general advertisement by an entity by which Employee is employed or to which he is otherwise affiliated shall not be a violation of this provision..

9. Employee agrees that he will cooperate with the Company during and following the Employment Period by making himself reasonably available to testify on behalf

of the Company or any subsidiary or affiliate of the Company in any action, suit, or proceeding, whether civil, criminal, administrative, or investigative, and to reasonably assist the Company or any such subsidiary or affiliate in any such action, suit, or proceeding by providing information and meeting and consulting with the Board or its representatives or counsel, or representatives or counsel to the Company or any such subsidiary or affiliate, as reasonably requested; provided, however, that the same does not materially interfere with his then current professional activities. The Company will reimburse Employee for all expenses reasonably incurred by him in connection with such provision of testimony or assistance.

10. The Company and Employee mutually agree to keep confidential the terms of this Agreement and not to disclose any term of this Agreement to any other person or entity, except for Employee’s family, accountants and attorneys (who will also be subject to this confidentiality agreement), and the Company’s obligation, if any, to disclose such information under the Securities Act of 1933, Securities Exchange Act of 1934, and the Rules and Regulations promulgated thereunder. In the event that Employee is required by law to disclose any term of this Agreement, Employee agrees to give the Company ten days written notice prior to any such disclosure, or such shorter time period as mandated by law or is otherwise practicable.

11. Employee shall not make any statements, either directly or through other persons or entities, which are disparaging to the Company or any of its affiliates, management, officers, directors, services, products, operations, prospects or other matters relating to the Company’s businesses. The Company shall not make any statements, either directly or through other persons or entities, which are disparaging to Employee. The

Company through its Chief Executive Officer agrees that, upon request of Employee, it will provide references upon substantially the terms set forth in Exhibit B.

12. Employee acknowledges and agrees that damages in an action at law for breach of any of the provisions of paragraphs 7, 8, 9, 10 and 11 will be difficult to determine and will not afford a full and adequate remedy and, therefore, agrees that the Company, in addition to seeking damages in an action at law, may seek specific performance and such equitable or other remedies as may be available for breach of this paragraph, including, without limitation, the issuance of a temporary or permanent injunction, without the necessity of a bond.

13. The Company has advised Employee to consult with an attorney prior to executing this Agreement and, in fact, Employee has been represented by the law firm of Stradley Ronon Stevens & Young, LLP, Philadelphia Pennsylvania. By executing this Agreement, Employee acknowledges that (a) he has been provided an opportunity to consult with an attorney or other advisor of his choice regarding the terms of this Agreement, and (b) this is a final offer. The Company reserves the right to change or revoke this Agreement prior to Employee’s execution hereof. This Agreement shall be fully effective and binding upon all parties hereto immediately upon execution of this Agreement except as to rights or claims arising under the ADEA. Employee further covenants not to contest the validity of all releases under this Agreement.

14. Any notice to be given hereunder shall be in writing and shall be deemed given when mailed by certified mail, return receipt requested, or by overnight delivery service addressed as follows:

To Mr. Gorman: 1566 Hancock Lane
Wayne PA 19087

With a copy to:	Ellen Rosen Rogoff, Esq. Stradley Ronon Stevens & Young, LLP One Commerce Square Philadelphia, PA 19103
To the Company at:	Universal Health Services, Inc. Universal Corporate Center 367 South Gulph Road King of Prussia, PA 19406 Attention: President
With a copy to:	Warren J. Nimetz, Esq. Fulbright & Jaworski L.L.P. 666 Fifth Avenue New York, New York 10103

or at such other address as may be indicated in writing by any party to the other parties in the manner provided herein for giving notice.

15. In the event that any one or more of the provisions of this Agreement is held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions will not in any way be affected or impaired thereby. This Agreement will survive the termination of any arrangements contained herein and is binding on and will inure to the benefit of each of the parties and their respective affiliates, heirs, executors, administrators, successors and assigns.

16. This Agreement shall be governed by the substantive laws of the Commonwealth of Pennsylvania, without giving effect to any principles of conflicts of law.

17. Each of the parties agrees to do and perform or cause to be done and performed all further acts and shall execute and deliver all other documents necessary on its part to carry out the intent and accomplish the purposes of this Agreement and the transaction contemplated hereby.

18. This Agreement sets forth the entire agreement between the parties hereto concerning the subject matter hereof and may not be changed without the written consent of each of the parties.

IN WITNESS WHEREOF, the parties have each executed this Agreement as of the date first written above.

UNIVERSAL HEALTH SERVICES, INC.

By: /s/ ALAN B. MILLER

Name: **Alan B. Miller**
Title: **President and Chief Executive Officer**

/s/ KIRK E. GORMAN

Kirk E. Gorman

EXHIBIT A

Forgiveness Date				Remaining Outstanding
2-May-03	$	166,242.19	$	1,613,070.37
5/30/2003	$	170,567.19	$	1,442,503.18
9/20/2003	$	92,771.25	$	1,349,731.93
10/27/2003	$	237,131.64	$	1,112,600.29
11/29/2003	$	218,250.32	$	894,349.97
11/30/2003	$	158,267.97	$	736,082.00
	$	1,043,230.56		

Other Loans		Amount
04/30/2001	$	141,773.51
10/23/2001	$	260,818.33
11/21/2001	$	82,495.05
03/15/2002	$	80,482.63
04/04/2002	$	47,331.72
06/21/2002	$	123,180.76
Due 4/30/2003	$	736,082.00
Total All Loans	$	1,779,312.56

EXHIBIT B

Kirk Gorman has been employed by Universal Health Services, Inc. for sixteen years. He served as CFO for over ten years. During this period, the Company grew in size to over $3.3 billion in revenues.

Kirk made many contributions to UHS and was well liked and respected by his colleagues, management and the investing community. The company has the utmost regard for his integrity and capabilities.

Kirk will be an asset to any company with which he is involved. I highly recommend him.

If asked about Kirk's termination as CFO, the response shall be:

The management change was as a result of communications between Kirk Gorman and the Company's independent auditors regarding his views on their respective responsibilities.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Universal Health Services, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alan B. Miller, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ ALAN B. MILLER

Alan B. Miller
President and Chief Executive Officer
May 12, 2003

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Universal Health Services, Inc. (the “Company”) on Form 10-Q for the quarter ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Steve Filton, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ STEVE FILTON

Steve Filton
Vice President and Chief Financial Officer
May 12, 2003

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.