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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(MARK ONE)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2002
OR
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to
Commission File No. 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 Number)**
UNIVERSAL CORPORATE CENTER **367 South Gulph Road** **P.O. Box 61558** **King of Prussia, Pennsylvania** **(Address of principal executive offices)**	**19406-0958** **(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	**Name of each exchange on which registered**
Class B Common Stock, $.01 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:
Class D Common Stock, $.01 par value
(Title of each Class)

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities and 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 ü **No** ____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Yes ü **No** ____

The number of shares of the registrant's Class A Common Stock, $.01 par value, Class B Common Stock, $.01 par value, Class C Common Stock, $.01 par value, and Class D Common Stock, $.01 par value, outstanding as of January 31, 2003, were 3,328,404, 55,346,043, 335,800 and 35,386, respectively.

The aggregate market value of voting stock held by non-affiliates at June 30, 2002 $2,686,918,234 (For the purpose of this calculation, it was assumed that Class A, Class C, and Class D Common Stock, which are not traded but are convertible share-for-share into Class B Common Stock, have the same market value as Class B Common Stock.)

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's definitive proxy statement for its 2003 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2002 (incorporated by reference under Part III).

PART I

ITEM 1. *Business*

The principal business of Universal Health Services, Inc. (together with its subsidiaries, the "Company") is owning and operating through its subsidiaries, acute care hospitals, behavioral health centers, ambulatory surgery centers and radiation oncology centers. At December 31, 2002, the Company operated 34 acute care hospitals and 38 behavioral health centers located in Arkansas, California, Delaware, the District of Columbia, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Massachusetts, Michigan, Mississippi, Missouri, Nevada, New Jersey, Oklahoma, Pennsylvania, Puerto Rico, South Carolina, Tennessee, Texas, Utah, Washington and France. The Company, as part of its ambulatory treatment centers division, owns outright, or in partnership with physicians, and operates or manages 24 surgery and radiation oncology centers located in 12 states and Puerto Rico.

Services provided by the Company's hospitals include general surgery, internal medicine, obstetrics, emergency room care, radiology, oncology, diagnostic care, coronary care, pediatric services and behavioral health services. The Company provides capital resources as well as a variety of management services to its facilities, including central purchasing, information services, finance and control systems, facilities planning, physician recruitment services, administrative personnel management, marketing and public relations.

The Company selectively seeks opportunities to expand its base of operations by acquiring, constructing or leasing additional hospital facilities. Such expansion may provide the Company with access to new markets and new health care delivery capabilities. The Company also seeks to increase the operating revenues and profitability of owned hospitals by the introduction of new services, improvement of existing services, physician recruitment and the application of financial and operational controls. Pressures to contain health care costs and technological developments allowing more procedures to be performed on an outpatient basis have led payors to demand a shift to ambulatory or outpatient care wherever possible. The Company is responding to this trend by emphasizing the expansion of outpatient services. In addition, in response to cost containment pressures, the Company intends to implement programs designed to improve financial performance and efficiency while continuing to provide quality care, including more efficient use of professional and paraprofessional staff, monitoring and adjusting staffing levels and equipment usage, improving patient management and reporting procedures and implementing more efficient billing and collection procedures. The Company also continues to examine its facilities and consider divestiture of those facilities which it believes do not have the potential to contribute to the Company's growth or operating strategy.

The Company is involved in continual development activities. Applications to state health planning agencies to add new services in existing hospitals are currently on file in states which require certificates of need. Although the Company expects that some of these applications will result in the addition of new facilities or services to the Company's operations, no assurances can be made for ultimate success by the Company in these efforts.

Recent and Proposed Acquisitions and Development Activities

During and subsequent to 2002, the Company proceeded with its development of new facilities and consummated a number of acquisitions.

In January, 2003, the Company acquired the assets and operations of: (i) a 108-bed behavioral health system in Anchorage, Alaska, and; (ii) two hospitals located in France that were purchased by an operating company which is 80% owned by the Company.

Effective January 1, 2002, the Company acquired the assets and operations of: (i) a 150-bed acute care facility located in Lansdale, Pennsylvania, and; (ii) a 117-bed acute care facility located in Lancaster, California. Included in other assets at December 31, 2001 were $70 million of deposits related to the acquisition of these two facilities. Also during 2002, the Company acquired a majority ownership interest in the assets and operations of a surgery center located in San Turce, Puerto Rico.

Bed Utilization and Occupancy Rates

The following table shows the historical bed utilization and occupancy rates for the hospitals operated by the Company for the years indicated. Accordingly, information related to hospitals acquired during the five year period has been included from the respective dates of acquisition, and information related to hospitals divested during the five year period has been included up to the respective dates of divestiture.

	2002	2001	2000	1999	1998
Average Licensed Beds:					
Acute Care Hospitals	6,896	6,234	4,980	4,806	4,696
Behavioral Health Centers	3,752	3,732	2,612	1,976	1,782
Average Available Beds(1):					
Acute Care Hospitals	5,885	5,351	4,220	4,099	3,985
Behavioral Health Centers	3,608	3,588	2,552	1,961	1,767
Admissions:					
Acute Care Hospitals	330,042	276,429	214,771	204,538	187,833
Behavioral Health Centers	84,348	78,688	49,971	37,810	32,400
Average Length of Stay (Days):					
Acute Care Hospitals	4.7	4.7	4.7	4.7	4.7
Behavioral Health Centers	11.9	12.1	12.2	11.8	11.3
Patient Days(2):					
Acute Care Hospitals	1,558,140	1,303,375	1,017,646	963,842	884,966
Behavioral Health Centers	1,005,882	950,236	608,423	444,632	365,935
Occupancy Rate—Licensed Beds(3):					
Acute Care Hospitals	62%	57%	56%	55%	52%
Behavioral Health Centers	73%	70%	64%	62%	56%
Occupancy Rate—Available Beds(3):					
Acute Care Hospitals	73%	67%	66%	64%	61%
Behavioral Health Centers	76%	73%	65%	62%	57%

Note: Includedin the Acute Care Hospitals beginning in 2001 is the data for the nine hospitals located in France owned by an operating company in which the Company purchased an 80% ownership interest during 2001.

(1) “Average Available Beds” is the number of beds which are actually in service at any given time for immediate patient use with the necessary equipment and staff available for patient care. A hospital may have appropriate licenses for more beds than are in service for a number of reasons, including lack of demand, incomplete construction, and anticipation of future needs.

(2) “Patient Days” is the aggregate sum for all patients of the number of days that hospital care is provided to each patient.

(3) “Occupancy Rate” is calculated by dividing average patient days (total patient days divided by the total number of days in the period) by the number of average beds, either available or licensed.

The number of patient days of a hospital is affected by a number of factors, including the number of physicians using the hospital, changes in the number of beds, the composition and size of the population of the community in which the hospital is located, general and local economic conditions, variations in local medical and surgical practices and the degree of outpatient use of the hospital services. Current industry trends in utilization and occupancy have been significantly affected by changes in reimbursement policies of third party payors. A continuation of such industry trends could have a material adverse impact upon the Company’s future operating performance. The Company has experienced growth in outpatient utilization over the past several years. The Company is unable to predict the rate of growth and resulting impact on the Company’s future revenues because it is dependent upon developments in medical technologies and physician practice patterns, both of which are outside of the Company’s control. The Company is also unable to predict the extent to which other industry trends will continue or accelerate.

Sources of Revenue

The Company receives payment for services rendered from private insurers, including managed care plans, the federal government under the Medicare program, state governments under their respective Medicaid programs and directly from patients. All of the Company's acute care hospitals and most of the Company's behavioral health centers are certified as providers of Medicare and Medicaid services by the appropriate governmental authorities. The requirements for certification are subject to change, and, in order to remain qualified for such programs, it may be necessary for the Company to make changes from time to time in its facilities, equipment, personnel and services. The costs for recertification are not material as many of the requirements for recertification are integrated with the Company's internal quality control processes. If a facility loses certification, it will be unable to receive payment for patients under the Medicare or Medicaid programs. Although the Company intends to continue in such programs, there is no assurance that it will continue to qualify for participation.

The sources of the Company's hospital revenues are charges related to the services provided by the hospitals and their staffs, such as radiology, operating rooms, pharmacy, physiotherapy and laboratory procedures, and basic charges for the hospital room and related services such as general nursing care, meals, maintenance and housekeeping. Hospital revenues depend upon the occupancy for inpatient routine services, the extent to which ancillary services and therapy programs are ordered by physicians and provided to patients, the volume of outpatient procedures and the charges or negotiated payment rates for such services. Charges and reimbursement rates for inpatient routine services vary depending on the type of bed occupied (*e.g.*, medical/surgical, intensive care or psychiatric) and the geographic location of the hospital.

McAllen Medical Center located in McAllen, Texas and Edinburg Regional Medical Center located in Edinburg, Texas operate within the same market. On a combined basis, these two facilities contributed 11% in both 2002 and 2001, and 12% in 2000 of the Company's consolidated net revenues and 17% in both 2002 and 2001, and 21% in 2000 of the Company's consolidated earnings before depreciation, amortization, interest, income taxes and nonrecurring charges (after deducting an allocation of corporate overhead)("EBITDA"). The Company has a majority ownership interest in three acute care hospitals in the Las Vegas, Nevada market. These three hospitals, Valley Hospital Medical Center, Summerlin Hospital Medical Center and Desert Springs Hospital, on a combined basis, contributed 15% in 2002, 16% in 2001 and 18% in 2000 of the Company's consolidated net revenues and 12% in 2002, 13% in 2001 and 14% in 2000 of the Company's consolidated EBITDA.

The following table shows approximate percentages of net patient revenue derived by the Company's hospitals owned as of December 31, 2002 since their respective dates of acquisition by the Company from third party sources, including the additional Medicaid reimbursements received at five of the Company's acute care facilities located in Texas and one in South Carolina totaling $33.0 million in 2002, $32.6 million in 2001, $28.9 million in 2000, $37.0 million in 1999, and $36.5 million in 1998, and from all other sources during the five years ended December 31, 2001.

	PERCENTAGE OF NET PATIENT REVENUES				
	2002	2001	2000	1999	1998
Third Party Payors:					
Medicare	31.8%	31.5%	32.3%	33.5%	34.3%
Medicaid	10.1%	10.5%	11.5%	12.6%	11.3%
Managed Care (HMOs and PPOs)	39.0%	36.9%	34.5%	31.5%	27.2%
Other Sources	19.1%	21.1%	21.7%	22.4%	27.2%
Total	100%	100%	100%	100%	100%

Regulation and Other Factors

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 42%, 42% and 44% of the Company's net patient revenues during 2002, 2001 and 2000, 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 the 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.

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 certain behavioral health services facilities. Effective for Medicare cost reporting periods beginning on or after October 1, 1997, different caps are applied to certain 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 Centers 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 certain 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 implementation of this PPS for inpatient services furnished by certain behavioral health hospitals has been delayed until the first 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 can not 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 addition, without further Congressional action, in fiscal year 2003 hospitals will receive 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 estimated to equal 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 percent. 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, however, the impact is not expected to have a material effect on the Company's future results of operations.

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 standard DRG payment 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 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 in any state in which it operates, 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 Health and Human Services Commission 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 a 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 $33.0 million in 2002, $32.6 million in 2001 and $28.9 million in 2000, 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 federal and state laws and regulations which include, among other things, participation requirements of federal and state health care programs, various licensure and accreditation requirements, reimbursement rules for patient services, False Claims Act provisions, patient privacy rules and Medicare and Medicaid anti-fraud and abuse provisions. Providers that are found to have violated these laws and regulations may be excluded from participating in federal and state 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 applicable laws and regulations, no assurance can be given that the Company will not be subjected to governmental inquiries or actions or that governmental authorities may not find the Company to be in violation of a law or regulation as a result of an inquiry or action.

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 39% in 2002, 37% in 2001 and 35% in 2000, 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 two years, the Company secured price increases from many of its commercial payors including managed care companies.

The federal physician self-referral and payment prohibitions (codified in 42 U.S.C. Section 1395nn, Section 1877 of the Social Security Act) generally forbid, absent qualifying for one of the exceptions, a physician

from making referrals for the furnishing of any "designated health services," for which payment may be made under the Medicare or Medicaid programs, to any entity with which the physician (or an immediate family member) has a "financial relationship." The legislation was effective January 1, 1992 for clinical laboratory services ("Stark I") and January 1, 1995 for ten other designated health services ("Stark II"). A "financial relationship" under Stark I and II includes any direct or indirect "compensation arrangement" with an entity for payment of any remuneration, and any direct or indirect "ownership or investment interest" in the entity. The legislation contains certain exceptions including, for example, where the referring physician has an ownership interest in a hospital as a whole or where the physician is an employee of an entity to which he or she refers. The Stark I and II self-referral and payment prohibitions include specific reporting requirements providing that each entity providing covered items or services must provide certain information concerning its ownership, investment, and compensation arrangements. In August 1995, CMS published a final rule regarding physician self-referrals for clinical lab services (Stark I). On January 4, 2001, CMS published a portion of the final rules regarding physician self referrals for the ten other designated health services (Stark II). The remaining portions of the final rule for Stark II are still forthcoming. Penalties for violating Stark I and Stark II include denial of payment for any services rendered by an entity in violation of the prohibitions, civil money penalties of up to $15,000 for each offense, and exclusion from the Medicare and Medicaid programs.

The federal anti-kickback statute (codified in 42 U.S.C. Section 1320a-7b(b)) prohibits individuals and entities from knowingly and willfully soliciting, receiving, offering or paying any remuneration to other individuals and entities (directly or indirectly, overtly or covertly, in cash or in kind):

1. in return for referring an individual to a person for the furnishing or arranging for the furnishing of any item or service for which payment may be made under a federal or state health care program; or
2. in return for purchasing, leasing, ordering or arranging for or recommending purchasing, leasing, or ordering any good, facility, service or item for which payment may be made under a federal or state health care program.

Starting in 1991, the Inspector General of the Department of Health and Human Services ("HHS") issued regulations which provide for "safe harbors" from the federal anti-kickback statute; if an arrangement or transaction meets each of the standards established for a particular safe harbor, the arrangement will not be subject to challenge by the Inspector General. If an arrangement does not meet the safe harbor criteria, it will be subject to scrutiny under its particular facts and circumstances to determine whether it violates the federal anti-kickback statute. Safe harbors include protection for certain limited investment interests, space rental, equipment rental, personal service/management contracts, sales of a physician practice, referral services, warranties, employees, discounts and group purchasing arrangements, among others. The criminal sanctions for a conviction under the anti-kickback statute include imprisonment, fines, or both. Civil sanctions include exclusion from federal and state healthcare programs.

Many states have also enacted similar illegal remuneration statutes that apply to healthcare services reimbursed by private insurance, not just those reimbursed by a federal or state health care program. In many instances, the state statutes provide that any arrangement falling in a federal safe harbor will be immune from scrutiny under the state statutes.

The Company does not anticipate that the Stark provisions, the anti-kickback statute or similar state law provisions will have material adverse effects on our operations. However, in consideration of the current health care regulatory atmosphere, the Company cannot provide any assurance that federal or state authorities would not attempt to challenge one or more of the Company's business dealings in consideration of one of these federal or state provisions, or that if challenged that the authorities might not prevail.

As further discussed under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Year Ended December 31, 2002 Compared to Years Ended December 31, 2001 and 2000 — Health Insurance Portability and Accountability Act of 1996" ("HIPAA"), we are subject to the

provisions of the HIPAA and have begun the process of implementing the necessary changes required pursuant to HIPAA (see Privacy and Security Requirements under the Health Insurance Portability and Accountability Act of 1996).

Several states, including Florida and Nevada, have passed legislation which limits physician ownership in medical facilities providing imaging services, rehabilitation services, laboratory testing, physical therapy and other services. This legislation is not expected to significantly affect our operations. Many states have laws and regulations which prohibit payments for referral of patients and fee-splitting with physicians. We do not make any such payments or have any such arrangements.

All hospitals are subject to compliance with various federal, state and local statutes and regulations and receive periodic inspection by state licensing agencies to review standards of medical care, equipment and cleanliness. Our hospitals must comply with the conditions of participation and licensing requirements of federal, state and local health agencies, as well as the requirements of municipal building codes, health codes and local fire departments. In granting and renewing licenses, a department of health considers, among other things, the physical buildings and equipment, the qualifications of the administrative personnel and nursing staff, the quality of care and continuing compliance with the laws and regulations relating to the operation of the facilities. State licensing of facilities is a prerequisite to certification under the Medicare and Medicaid programs. Various other licenses and permits are also required in order to dispense narcotics, operate pharmacies, handle radioactive materials and operate certain equipment. All our eligible hospitals have been accredited by JCAHO. JCAHO reviews each hospital's accreditation once every three years. The review period for each state's licensing body varies, but generally ranges from once a year to once every three years.

The Social Security Act and regulations thereunder contain numerous provisions which affect the scope of Medicare coverage and the basis for reimbursement of Medicare providers. Among other things, this law provides that in states which have executed an agreement with the Secretary of HHS, Medicare reimbursement may be denied with respect to depreciation, interest on borrowed funds and other expenses in connection with capital expenditures which have not received prior approval by a designated state health planning agency. Additionally, many of the states in which our hospitals are located have enacted legislation requiring certificates of need ("CON") as a condition prior to hospital capital expenditures, construction, expansion, modernization or initiation of major new services. Failure to obtain necessary state approval can result in the inability to complete an acquisition or change of ownership, the imposition of civil or, in some cases, criminal sanctions, the inability to receive Medicare or Medicaid reimbursement or the revocation of a facility's license. We have not experienced and do not expect to experience any material adverse effects from those requirements.

Health planning statutes and regulatory mechanisms are in place in many states in which we operate. These provisions govern the distribution of healthcare services, the number of new and replacement hospital beds, administer required state CON laws, contain healthcare costs, and meet the priorities established therein. Significant CON reforms have been proposed in a number of states, including increases in the capital spending thresholds and exemptions of various services from review requirements. We are unable to predict the impact of these changes upon our operations.

Federal regulations provide that admissions and utilization of facilities by Medicare and Medicaid patients must be reviewed in order to insure efficient utilization of facilities and services. The law and regulations require Peer Review Organizations ("PROs") to review the appropriateness of Medicare and Medicaid patient admissions and discharges, the quality of care provided, the validity of DRG classifications and the appropriateness of cases of extraordinary length of stay. PROs may deny payment for services provided, assess fines and also have the authority to recommend to HHS that a provider that is in substantial non-compliance with the standards of the PRO be excluded from participating in the Medicare program. We have contracted with PROs in each state where we do business as to the scope of such functions.

Our healthcare operations generate medical waste that must be disposed of in compliance with federal, state and local environmental laws, rules and regulations. In 1988, Congress passed the Medical Waste Tracking Act

(42 U.S.C. (S) 6992). Infectious waste generators, including hospitals, now face substantial penalties for improper arrangements regarding disposal of medical waste, including civil penalties of up to $25,000 per day of noncompliance, criminal penalties of up to $50,000 per day, imprisonment, and remedial costs. The comprehensive legislation establishes programs for medical waste treatment and disposal in designated states. The legislation also provides for sweeping inspection authority in the Environmental Protection Agency, including monitoring and testing. We believe that our disposal of such wastes is in material compliance with all state and federal laws.

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 privacy 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 must comply with the privacy regulations by April, 2003.

(iii) Creating unique identifiers for the four constituents in healthcare: payors, providers, patients and employers. HIPAA mandates 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 implementing the necessary changes required pursuant to 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.

Medical Staff and Employees

The Company's hospitals are staffed by licensed physicians who have been admitted to the medical staff of individual hospitals. With a few exceptions, physicians are not employees of the Company's hospitals and members of the medical staffs of the Company's hospitals also serve on the medical staffs of hospitals not owned by the Company and may terminate their affiliation with the Company's hospitals at any time. Each of the Company's hospitals is managed on a day-to-day basis by a managing director employed by the Company. In addition, a Board of Governors, including members of the hospital's medical staff, governs the medical, professional and ethical practices at each hospital. The Company's facilities had approximately 32,000 employees on December 31, 2002, of whom approximately 21,250 were employed full-time.

Approximately, 1,900 of the Company's employees at six of its hospitals are unionized. At Valley Hospital, unionized employees belong to the Culinary Workers and Bartenders Union, the International Union of Operating Engineers and the Service Employees International Union. In 2002, approximately 125 technicians at Valley Hospital decertified from the Service Employees International Union. Registered nurses at Auburn Regional Medical Center located in Washington, are represented by the United Staff Nurses Union, the technical employees are represented by the United Food and Commercial Workers, and the service employees are represented by the Service Employees International Union. At The George Washington University Hospital, unionized employees are represented by the Service Employees International Union. Nurses and technicians at Desert Springs Hospital are represented by the Service Employees International Union. Registered Nurses, Licensed Practical Nurses, certain technicians and therapists, pharmacy assistants, and some clerical employees at HRI Hospital in Boston are represented by the Service Employees International Union. Unionized employees at Hospital San Francisco in Puerto Rico are represented by the Labor Union of Nurses and Health Employees. The Company believes that its relations with its employees are satisfactory.

Competition

In all geographical areas in which the Company operates, there are other hospitals which provide services comparable to those offered by the Company's hospitals, some of which are owned by governmental agencies and supported by tax revenues, and others of which are owned by nonprofit corporations and may be supported to a large extent by endowments and charitable contributions. Such support is not available to the Company's hospitals. Certain of the Company's competitors have greater financial resources, are better equipped and offer a broader range of services than the Company. Outpatient treatment and diagnostic facilities, outpatient surgical centers and freestanding ambulatory surgical centers also impact the healthcare marketplace. In recent years, competition among healthcare providers for patients has intensified in the United States due to, among other things, regulatory and technological changes, increasing use of managed care payment systems, cost containment pressures, a shift toward outpatient treatment and an increasing supply of physicians. The Company's strategies are designed, and management believes that its facilities are positioned, to be competitive under these changing circumstances.

General and Professional Liability

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. Total insurance expense including professional and general liability, property, auto and workers' compensation, was approximately $25 million higher in 2002 as compared to 2001. 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 professional and general liability insurance policies with PHICO, a Pennsylvania-based commercial insurance company. Certain subsidiaries, including hospitals located in Washington, D.C, Puerto Rico and south Texas were covered under policies with various coverage limits up to $5 million per occurrence through December 31, 2001. The majority of the remaining subsidiaries were covered under policies, which provided for a self-insured retention limit up to $1 million per occurrence, with an annual aggregate retention amount of approximately $4 million in 1998, $5 million in 1999, $7 million in 2000 and $11 million in 2001. These subsidiaries maintain excess coverage up to $100 million with other major insurance carriers.

Early in the first quarter of 2002, PHICO was placed in liquidation by the Pennsylvania Insurance Commissioner. As a result, during the fourth quarter of 2001, the Company recorded a $40 million pre-tax charge to earnings to accrue for its estimated liability that resulted from this event. Management estimated this liability based on a number of factors including, among other things, the number of asserted claims and reported incidents, estimates of losses for these claims based on recent and historical settlement amounts, estimates of unasserted claims based on historical experience, and estimated recoveries from state guaranty funds.

When PHICO entered liquidation proceedings, each state's department of insurance was required to declare PHICO as insolvent or impaired. That designation effectively triggers coverage under the applicable state's insurance guarantee association, which operates as replacement coverage, subject to the terms, conditions and limits set forth in that particular state. Therefore, the Company is entitled to receive reimbursement from those state's guarantee funds for which it meets the eligibility requirements. In addition, the Company may be entitled to receive reimbursement from PHICO's estate for a portion of the claims ultimately paid by the Company. Management expects that the remaining cash payments related to these claims will be made over the next seven years as the cases are settled or adjudicated.

Included in other assets as of December 31, 2002 and 2001, were estimates of approximately $37 million and $54 million, respectively, representing expected recoveries from various state guaranty funds. The reduction in estimated recoveries as of December 31, 2002 as compared to December 31, 2001 is due to Management's reassessment of its ultimate liability for general and professional liability claims relating to the period from 1998 through 2001, its estimate of related recoveries under state guaranty funds, and payments received during 2002 from such state guaranty funds. While Management continues to monitor the factors used in making these estimates, the Company's ultimate liability for professional and general liability claims and its actual recoveries from state guaranty funds, could change materially from current estimates due to the inherent uncertainties involved in making such estimates. Therefore, there can be no assurance that changes in these estimates, if any, will not have a material adverse effect on the Company's financial position, results of operations or cash flows in future periods.

As of December 31, 2002, the total accrual for the Company's professional and general liability claims, including all PHICO related claims was $168.2 million ($131.2 million net of expected recoveries from state guaranty funds), of which $12.0 million is included in other current liabilities. As of December 31, 2001, the total reserve for the Company's professional and general liability claims was $158.1 million ($104.1 million net of expected recoveries from state guaranty funds), of which $26.0 million is included in other current liabilities.

Relationship with Universal Health Realty Income Trust

At December 31, 2002, 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 this advisory agreement, the Company conducts the Trust's day to day affairs, provides administrative services and presents investment opportunities. 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, 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 $1.4 million during 2002, $1.3 million during 2001 and $1.2 million during 2000, and is included in net revenues in the accompanying consolidated statements of income. The carrying value of this investment was $9.1 million and $9.0 million at December 31, 2002 and 2001, respectively, and is included in other assets in the accompanying consolidated balance sheets. The market value of this investment was $20.3 million at December 31, 2002 and $18.0 million at December 31, 2001.

As of December 31, 2002, the Company leased six hospital facilities from the Trust with terms expiring in 2004 through 2008. These leases contain up to six 5-year renewal options. During 2002, the Company exercised the five-year renewal option on an acute care hospital leased from the Trust which was scheduled to expire in 2003. The renewal rate on this facility is based upon the five year Treasury rate on March 29, 2003 plus a spread. Future minimum lease payments to the Trust are included in Note 7. Total rent expense under these operating leases was $17.2 million in 2002, $16.5 million in 2001 and $17.1 million in 2000. The terms of the lease provide that in the event the Company discontinues operations at the leased facility for more than one year, the Company is obligated to offer a substitute property. If the Trust does not accept the substitute property offered, the Company is obligated to purchase the leased facility back from the Trust at a price equal to the greater of its then fair market value or the original purchase price paid by the Trust. As of December 31, 2002, the aggregate fair market value of the Company's facilities leased from the Trust is not known, however, the aggregate original purchase price paid by the Trust for these properties was $112.5 million. The Company received an advisory fee from the Trust of $1.4 million in 2002 and $1.3 million in both 2001 and 2000 for investment and administrative services provided under a contractual agreement which is included in net revenues in the accompanying consolidated statements of income.

During 2000, the Company sold the real property of a medical office building to a limited liability company that is majority owned by the Trust for cash proceeds of approximately $10.5 million. Tenants in the multi-tenant building include subsidiaries of the Company as well as unrelated parties.

Executive Officers of the Registrant

The executive officers of the Company, whose terms will expire at such time as their successors are elected, are as follows:

Name and Age	Present Position with the Company
Alan B. Miller (65)	Director, Chairman of the Board, President and Chief Executive Officer
O. Edwin French (56)	Senior Vice President
Steve G. Filton (45)	Vice President, Chief Financial Officer, Controller and Secretary
Debra Osteen (47)	Vice President
Richard C. Wright (55)	Vice President

Mr. Alan B. Miller has been Chairman of the Board, President and Chief Executive Officer of the Company since its inception. Prior thereto, he was President, Chairman of the Board and Chief Executive Officer of American Medicorp, Inc. He currently serves as Chairman of the Board, Chief Executive Officer and Trustee of the Trust. Mr. Miller also serves as a Director of Penn Mutual Life Insurance Company, CDI Corp. (provides staffing services and placements) and Broadlane, Inc. (an e-commerce marketplace for healthcare supplies, equipment and services).

Mr. French joined the Company in October 2001, as Senior Vice President, responsible for the Acute Care Hospital Division. He had served as President and Chief Operating Officer of Physician Reliance Network from 1997 to 2000, as Senior Vice President of American Medical International from 1992 to 1995, as Executive Vice President of Samaritan Health Systems of Phoenix from 1991 to 1992 and as Senior Vice President of Methodist Health Systems, Inc. in Memphis from 1985 to 1991.

Mr. Filton has been Vice President and Controller of the Company since November 1991 and was elected Chief Financial Officer in February, 2003. Prior thereto he had served as Director of Accounting and Control. In September 1999, he was elected Secretary of the Company.

Ms. Osteen was elected Vice President of the Company in January 2000, responsible for the Behavioral Health Division. She has served in various capacities with the Company since 1984 including responsibility for approximately one-half of the Behavioral Health Division's facilities.

Mr. Wright was elected Vice President of the Company in May 1986. He has served in various capacities with the Company since 1978 and currently heads the Development function.

The Company makes available, free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments, if any, to those reports through its Internet website as soon as reasonably practicable after they have been electronically filed with or furnished to the SEC. The Company's internet address is: *www:uhsinc.com.*

ITEM 2. ***Properties***

Executive Offices

The Company owns an office building with 68,000 square feet available for use located on 11 acres of land in King of Prussia, Pennsylvania.

Facilities

The following tables set forth the name, location, type of facility and, for acute care hospitals and behavioral health centers, the number of licensed beds, for each of the Company's facilities:

Acute Care Hospitals

Name of Facility	Location	Number of Beds	Real Property Ownership Interest
Aiken Regional Medical Centers	Aiken, South Carolina	225	Owned
Auburn Regional Medical Center	Auburn, Washington	149	Owned
Central Montgomery Medical Center	Lansdale, Pennsylvania	150	Owned
Chalmette Medical Center(1)	Chalmette, Louisiana	195	Leased
Desert Springs Hospital(2)	Las Vegas, Nevada	351	Owned
Doctors' Hospital of Laredo	Laredo, Texas	180	Owned
Doctors' Hospital of Shreveport(3)	Shreveport, Louisiana	136	Leased
Edinburg Regional Medical Center	Edinburg, Texas	169	Owned
Fort Duncan Medical Center	Eagle Pass, Texas	77	Owned
The George Washington University Hospital(4)	Washington, D.C.	371	Owned
Hospital San Francisco	Rio Piedras, Puerto Rico	160	Owned
Hospital San Pablo	Bayamon, Puerto Rico	430	Owned
Hospital San Pablo del Este	Fajardo, Puerto Rico	180	Owned
Lancaster Community Hospital	Lancaster, California	117	Owned
Manatee Memorial Hospital	Bradenton, Florida	491	Owned
McAllen Medical Center(6)	McAllen, Texas	633	Leased/Owned
Northern Nevada Medical Center(4)	Sparks, Nevada	100	Owned
Northwest Texas Healthcare System	Amarillo, Texas	357	Owned
River Parishes Hospital	LaPlace, Louisiana	106	Owned
Southwest Healthcare System(11)	Wildomar and Murrieta, California	176	Leased/Owned
St. Mary's Regional Medical Center	Enid, Oklahoma	277	Owned
Summerlin Hospital Medical Center(2)	Las Vegas, Nevada	190	Owned
Valley Hospital Medical Center(2)	Las Vegas, Nevada	400	Owned
Wellington Regional Medical Center(5)	West Palm Beach, Florida	120	Leased

Médi-Partenaires (Paris/Bordeaux)

Name of Facility (12)	Location	Number of Beds	Real Property Ownership Interest
Clinique Ambroise Paré	Toulouse, France	189	Owned
Clinique Richelieu	Saintes, France	73	Owned
Clinique Bercy	Charenton le Pont, France	92	Owned
Clinique Villette	Dunkerque, France	117	Owned
Clinique Pasteur	Bergerac, France	83	Owned
Clinique Bon Secours	Le Puy en Velay, France	96	Owned
Clinique Aressy	Pau France	179	Owned
Clinique Saint-Augustin	Bordeaux, France	155	Owned
Clinique Saint-Jean	Montpellier, France	99	Owned
Hopital Clinique Claude Bernard	Metz, France	120	Owned
Polyclinique Montreal	Carcassonne, France	218	Owned

Behavioral Health Centers

Name of Facility	Location	Number of Beds	Real Property Ownership Interest
Anchor Hospital	Atlanta, Georgia	74	Owned
The Arbour Hospital	Boston, Massachusetts	118	Owned
The Bridgeway(5)	North Little Rock, Arkansas	70	Leased
The Carolina Center for Behavioral Health	Greer, South Carolina	66	Owned
Clarion Psychiatric Center	Clarion, Pennsylvania	70	Owned
Del Amo Hospital	Torrance, California	166	Owned
Fairmount Behavioral Health System	Philadelphia, Pennsylvania	169	Owned
Forest View Hospital	Grand Rapids, Michigan	62	Owned
Fuller Memorial Hospital	South Attleboro, Massachusetts	82	Owned
Glen Oaks Hospital	Greenville, Texas	54	Owned
Hampton Hospital	Westhampton, New Jersey	100	Owned
Hartgrove Hospital	Chicago, Illinois	119	Owned
The Horsham Clinic	Ambler, Pennsylvania	146	Owned
Hospital San Juan Capestrano	Rio Piedras, Puerto Rico	108	Owned
HRI Hospital	Brookline, Massachusetts	68	Owned
KeyStone Center(7)	Wallingford, Pennsylvania	114	Owned
La Amistad Residential Treatment Center	Maitland, Florida	56	Owned
Lakeside Behavioral Health System	Memphis, Tennessee	204	Owned
Laurel Heights Hospital	Atlanta, Georgia	107	Owned
The Meadows Psychiatric Center	Centre Hall, Pennsylvania	101	Owned
Meridell Achievement Center	Austin, Texas	114	Owned
The Midwest Center for Youth and Families	Kouts, Indiana	50	Owned
North Star Hospital	Anchorage, Alaska	74	Owned
North Star Residential Treatment Center	Anchorage, Alaska	25	Owned
Palmer Residential Treatment Center	Palmer, Alaska	9	Owned
Parkwood Behavioral Health System	Olive Branch, Mississippi	106	Owned
The Pavilion	Champaign, Illinois	46	Owned
Peachford Behavioral Health System of Atlanta	Atlanta, Georgia	184	Owned
Pembroke Hospital	Pembroke, Massachusetts	107	Owned
Provo Canyon School	Provo, Utah	211	Owned
Ridge Behavioral Health System	Lexington, Kentucky	110	Owned
River Crest Hospital	San Angelo, Texas	80	Owned
River Oaks Hospital	New Orleans, Louisiana	126	Owned
Rockford Center	Newark, Delaware	74	Owned
Roxbury(7)	Shippensburg, Pennsylvania	53	Owned
St. Louis Behavioral Medicine Institute	St. Louis, Missouri	—	Owned
Talbott Recovery Campus	Atlanta, Georgia	—	Owned
Timberlawn Mental Health System	Dallas, Texas	124	Owned
Turning Point Care Center(7)	Moultrie, Georgia	59	Owned
Two Rivers Psychiatric Hospital	Kansas City, Missouri	80	Owned
Westwood Lodge Hospital	Westwood, Massachusetts	126	Owned

Ambulatory Surgery Centers

Name of Facility	Location	Real Property Ownership Interest
Brownsville Surgicare(8)	Brownsville, Texas	Leased
Eye Surgery Specialists of Puerto Rico(9)	San Turce, Puerto Rico	Leased
Goldring Surgical and Diagnostic Center(8)(13)	Las Vegas, Nevada	Owned
Hope Square Surgery Center(8)	Rancho Mirage, California	Leased
Northwest Texas Surgery Center(9)	Amarillo, Texas	Leased
Outpatient Surgical Center of Ponca City(8)	Ponca City, Oklahoma	Leased
Plaza Surgery Center(8)	Las Vegas, Nevada	Leased
St. George Surgical Center(8)	St. George, Utah	Leased
St. Lukes's Surgicenter(9)	Hammond, Louisiana	Leased
Surgery Center of Littleton(8)	Littleton, Colorado	Leased
Surgery Center of Midwest City(8)	Midwest City, Oklahoma	Leased
Surgery Center of Springfield(8)	Springfield, Missouri	Leased
Surgical Arts Surgery Center(9)	Reno, Nevada	Leased
Surgical Center of New Albany(8)	New Albany, Indiana	Leased

Radiation Oncology Centers

Name of Facility	Location	
Auburn Regional Center for Cancer Care	Auburn, Washington	Owned
Bluegrass Cancer Center	Frankfort, Kentucky	Owned
Cancer Institute of Nevada(9)(13)	Las Vegas, Nevada	Owned
Danville Radiation Therapy Center	Danville, Kentucky	Owned
Louisville Radiation Oncology Center(10)	Louisville, Kentucky	Owned
Madison Radiation Therapy(9)	Madison, Indiana	Owned
Southern Indiana Radiation Therapy	Jeffersonville, Indiana	Owned

Specialized Women's Health Center

Name of Facility	Location	
Renaissance Women's Center of Edmond(9)(13)	Edmond, Oklahoma	Owned

(1) Includes Chalmette Medical Center, which is a 118-bed medical/surgical facility and The Virtue Street Pavilion, a 77-bed facility consisting of a physical rehabilitation unit, skilled nursing and inpatient behavioral health services. The real property of both facilities is leased from the Trust.
(2) Desert Springs Hospital, Summerlin Hospital Medical Center and Valley Hospital Medical Center are owned by a limited liability company in which the Company has a 72.5% interest and Triad's subsidiary, NC-DSH, Inc., has a 27.5% interest. All hospitals are managed by the Company.
(3) Real property leased with an option to purchase.
(4) General partnership interest in limited partnership.
(5) Real property leased from the Trust.
(6) Real property of McAllen Medical Center is leased from the Trust. During 2000, the Company purchased the assets of an 80-bed non-acute care facility located in McAllen, Texas. Although the real property of the non-acute facility is not leased from the Trust, the license for this facility is included in McAllen Medical Center's license.
(7) Addictive disease facility.
(8) Each facility is owned in partnership form with the Company owning general and limited partnership interests in a limited partnership.
(9) The Company owns a majority interest in a limited liability company.
(10) The Company owns a majority interest in a limited liability partnership.

(11) Southwest Healthcare System consists of the Inland Valley Campus in Wildomar, California and the Rancho Springs Campus in Murrieta, California. The real property of the Inland Valley Campus is leased from the Trust.
(12) All facilities located in France are owned by an operating company in which the Company owns an 80% equity interest.
(13) Real property is owned by a limited partnership or limited liability company that is majority owned by the Company.

Some of these facilities are subject to mortgages, and substantially all the equipment located at these facilities is pledged as collateral to secure long-term debt. The Company owns or leases medical office buildings adjoining certain of its hospitals.

The Company believes that the leases or liens on the facilities leased or owned by the Company do not impose any material limitation on the Company's operations.

The aggregate lease payments on facilities leased by the Company were $33.8 million in 2002, $29.4 million in 2001 and $22.5 million in 2000.

ITEM 3. ***Legal Proceedings***

The Company is subject to claims and suits in the ordinary course of business, including those arising from care and treatment afforded by the Company's hospitals, and is party to various other litigation. However, Management believes the ultimate resolution of these pending proceedings will not have a material adverse effect on the Company.

The Company was contacted by the Philadelphia District Office of the Securities and Exchange Commission in February, 2003 requesting the voluntary provision of documents and related information and the voluntary testimony of certain individuals arising out of the termination of Kirk E. Gorman as Chief Financial Officer of the Company. The SEC has advised the Company that the inquiry should not be construed as an indication by the SEC or its staff that any violations of the law have occurred nor should it be considered a reflection upon any person, entity or security. The Company is fully cooperating with this inquiry.

During the fourth quarter of 2000, the Company recognized a pre-tax charge of $7.7 million to reflect the amount of an unfavorable jury verdict and reserve for future legal costs relating to an unprofitable facility that was closed during the first quarter of 2001. During 2001, an appellate court issued an opinion affirming the jury verdict and during the first quarter of 2002, the Company filed a petition for review by the Texas Supreme Court, which has accepted the case for review. Pending the outcome of the state supreme court review, the Company recorded interest expense related to this unfavorable jury verdict in the amount of $700,000 in both 2002 and 2001. During the fourth quarter of 2002, as a result of the sale of the real estate of this facility, the Company recorded a pre-tax $2.2 million gain from the sale of this facility.

ITEM 4. ***Submission of Matters to a Vote of Security Holders***

Inapplicable. No matter was submitted during the fourth quarter of the fiscal year ended December 31, 2002 to a vote of security holders.

PART II

ITEM 5. *Market for Registrant's Common Equity and Related Stockholder Matters*

Number of shareholders of record as of January 31, 2003, were as follows:

Class A Common	7
Class B Common	434
Class C Common	5
Class D Common	194

See Item 6, Selected Financial Data for additional disclosure

Additional information required by this Item will be included in the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after December 31, 2002.

ITEM 6. *Selected Financial Data*

	Year Ended December 31				
	2002	2001	2000	1999	1998
Summary of Operations (in thousands)					
Net revenues	$ 3,258,898	$ 2,840,491	$ 2,242,444	$ 2,042,380	$ 1,874,487
Net income	$ 175,361	$ 99,742	$ 93,362	$ 77,775	$ 79,558
Net margin	5.4%	3.5%	4.2%	3.8%	4.2%
Return on average equity	19.6%	12.8%	13.7%	12.1%	13.1%
Financial Data (in thousands)					
Cash provided by operating activities	$ 331,259	$ 297,543	$ 174,821	$ 157,118	$ 149,933
Capital expenditures, net (1)	$ 207,627	$ 160,748	$ 115,751	$ 68,695	$ 96,808
Total assets	$ 2,323,229	$ 2,168,589	$ 1,742,377	$ 1,497,973	$ 1,448,095
Long-term borrowings	$ 680,514	$ 718,830	$ 548,064	$ 419,203	$ 418,188
Common stockholders' equity	$ 917,459	$ 807,900	$ 716,574	$ 641,611	$ 627,007
Percentage of total debt to total capitalization	43%	47%	43%	40%	40%
Operating Data—Acute Care Hospitals(2)					
Average licensed beds	6,896	6,234	4,980	4,806	4,696
Average available beds	5,885	5,351	4,220	4,099	3,985
Hospital admissions	330,042	276,429	214,771	204,538	187,833
Average length of patient stay	4.7	4.7	4.7	4.7	4.7
Patient days	1,558,140	1,303,375	1,017,646	963,842	884,966
Occupancy rate for licensed beds	62%	57%	56%	55%	52%
Occupancy rate for available beds	73%	67%	66%	64%	61%
Operating Data—Behavioral Health Facilities					
Average licensed beds	3,752	3,732	2,612	1,976	1,782
Average available beds	3,608	3,588	2,552	1,961	1,767
Hospital admissions	84,348	78,688	49,971	37,810	32,400
Average length of patient stay	11.9	12.1	12.2	11.8	11.3
Patient days	1,005,882	950,236	608,423	444,632	365,935
Occupancy rate for licensed beds	73%	70%	64%	62%	56%
Occupancy rate for available beds	76%	73%	65%	62%	57%
Per Share Data					
Net income—basic(3)	$ 2.94	$ 1.67	$ 1.55	$ 1.24	$ 1.23
Net income—diluted(3)	$ 2.74	$ 1.60	$ 1.50	$ 1.22	$ 1.19
Other Information (in thousands)					
Weighted average number of shares outstanding—basic(3)	59,730	59,874	60,220	62,834	65,022
Weighted average number of shares and share equivalents outstanding —diluted(3)	67,075	67,220	64,820	63,980	66,586
Common Stock Performance					
Market price of common stock High—Low, by quarter(4)					
1st	$ 43.00—$37.80	$ 50.69—$38.88	$ 24.50—$18.25	$ 26.50—$18.94	$ 29.06—$23.53
2nd	$ 51.90—$42.31	$ 46.75—$37.82	$ 35.03—$24.50	$ 27.44—$19.75	$ 29.81—$26.50
3rd	$ 51.40—$41.90	$ 52.60—$42.65	$ 42.81—$31.91	$ 23.69—$11.84	$ 29.25—$19.38
4th	$ 56.20—$43.00	$ 48.60—$38.25	$ 55.88—$38.63	$ 18.25—$12.00	$ 27.16—$20.22

(1) Amount includes non-cash capital lease obligations.
(2) Includes data for nine hospitals located in France owned by an operating company in which the Company purchased an 80% ownership during 2001.

(3) In April 2001, the Company declared a two-for-one stock split in the form of a 100% stock dividend which was paid in June 2001. All classes of common stock participated on a pro rata basis. The weighted average number of common shares and equivalents and earnings per common and common equivalent share for all years presented have been adjusted to reflect the two-for-one stock split. There were no other dividends declared or paid during the other years presented. The Company has no current plans to declare cash dividends.

(4) These prices are the high and low closing sales prices of the Company's Class B Common Stock as reported by the New York Stock Exchange (all periods have been adjusted to reflect the two-for-one stock split in the form of a 100% stock dividend paid in June, 2001). Class A, C and D common stock are convertible on a share-for-share basis into Class B Common Stock.

ITEM 7. *Management's Discussion and Analysis of Operations and Financial Condition*

Forward-Looking Statements and 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 or 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 acquisitions; the Company's ability to finance growth on favorable terms; and, other factors referenced in the Company's 2002 Form 10-K. 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 15% to $3.26 billion in 2002 as compared to 2001 and 27% to $2.84 billion in 2001 as compared to 2000. The $420 million increase in net revenues during 2002 as compared to 2001 primarily resulted from: (i) a $255 million or 9% 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 years, and; (ii) $159 million of revenues generated at acute care and behavioral health care facilities acquired in the U.S. and France purchased at various times subsequent to January 1, 2001 (excludes revenues generated at these facilities one year after acquisition).

The $600 million increase in net revenues during 2001 as compared to 2000 resulted from: (i) a $276 million or 13% increase in net revenues generated at acute care and behavioral health care facilities owned during both years, and; (ii) $324 million of net revenues generated at acute care and behavioral health care

facilities acquired in the U.S. and France since January 1, 2000 (excludes revenues generated at these facilities one year after acquisition).

Net revenues from the Company's acute care facilities (including the nine hospitals located in France) and ambulatory treatment centers accounted for 82%, 81% and 84% of consolidated net revenues during 2002, 2001 and 2000, respectively. Net revenues from the Company's behavioral health services facilities accounted for 17%, 19% and 16% of consolidated net revenues during 2002, 2001 and 2000, respectively.

Operating income (defined as net revenues less salaries, wages and benefits, other operating expenses, supplies expense and provision for doubtful accounts) increased 17% to $516 million in 2002 from $442 million in 2001. In 2001, operating income increased 23% to $442 million from $359 million in 2000. Overall operating margins (defined as operating income divided by net revenues) were 15.8% in 2002, 15.6% in 2001 and 16.0% in 2000. The factors causing the fluctuations in the Company's overall operating margins during the last three years are discussed below.

Below is a reconciliation of consolidated operating income to consolidated income before income taxes and the extraordinary charge, recorded in 2001:

	2002	2001	2000
Consolidated operating income	$ 516,019	$ 441,921	$ 359,325
Less: Depreciation and amortization	124,794	127,523	112,809
Lease and rental	61,712	53,945	49,039
Interest expense, net	34,746	36,176	29,941
Provision for insurance settlements	—	40,000	—
(Recovery of)/facility closure costs	(2,182)	—	7,747
Losses on foreign exchange and derivative transactions	220	8,862	—
Minority interest in earnings of consolidated entities	19,658	17,518	13,681
Consolidated income before income tax and extraordinary charge	$ 277,071	$ 157,897	$ 146,108
Operating margin	15.8%	15.6%	16.0%

Net income was $175.4 million in 2002 as compared to $99.7 million in 2001. The increase of approximately $76 million during 2002 as compared to 2001 was primarily attributable to: (i) an increase of approximately $33 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 to the factors described below in Acute Care Services and Behavioral Health Services; (ii) an increase of approximately $10 million, after-tax, in operating income from acute care and behavioral health care facilities acquired in the U.S., Puerto Rico and France during 2001 and 2002 (excludes operating income, after-tax, generated at these facilities one year after acquisition); (iii) the 2001 period including $15.6 million of after-tax goodwill amortization expense which ceased upon the January 1, 2002 adoption of the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" (this decrease was substantially offset by an increase during 2002, in depreciation expense attributable to capital additions and acquisitions, including depreciation expense on the newly constructed 371-bed George Washington University Hospital which opened during the third quarter of 2002), and; (iv) the 2001 period including approximately $31 million of after-tax charges relating to provision for insurance settlements, losses on foreign exchange contracts, derivative transactions and debt extinguishment.

Acute Care Services

On a same facility basis, net revenues at the Company's acute care hospitals located in the U.S. and Puerto Rico increased 10% in 2002 as compared to 2001 and 14% in 2001 as compared to 2000. On a same facility basis, admissions and patient days increased 6.9% and 5.5%, respectively, in 2002 as compared to 2001 as the average length of stay remained unchanged at 4.7 days. Admissions and patient days at the Company's acute care hospitals located in the U.S. and Puerto Rico increased 4.8% and 5.7%, respectively, in 2001 as compared to 2000 as the average length of stay was 4.8 days in 2001 as compared to 4.7 days in 2000.

In addition to the increase in inpatient volumes, 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 as well as an increase in Medicare reimbursements which commenced on

April 1, 2001. On a same facility basis, at the Company's acute care hospitals located in the U.S. and Puerto Rico, net revenue per adjusted admission (adjusted for outpatient activity) increased 3.6% and net revenue per adjusted patient day (adjusted for outpatient activity) increased 4.6% in 2002 as compared to 2001. Also on a same facility basis, net revenue per adjusted admission increased 8.4% and net revenue per adjusted patient day increased 7.4% in 2001 as compared to 2000. Included in the same facility acute care financial results and patient statistical data are the operating results generated at the 60-bed McAllen Heart Hospital which was acquired by the Company in March of 2001. Upon acquisition, the facility began operating under the same license as an integrated department of McAllen Medical Center and therefore the financial and statistical results are not separable.

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). During 2002, 2001 and 2000, 43%, 43% and 44%, respectively, of the net patient revenues at the Company's acute care facilities were derived from Medicare and Medicaid (excludes revenues generated from managed Medicare and Medicaid programs). During 2002, 2001 and 2000, 37%, 36% and 35%, respectively, of the net patient revenues at the Company's acute care facilities were derived from managed care companies which includes health maintenance organizations, preferred provider 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 facilities located in the U.S. and Puerto Rico, operating expenses (salaries, wages and benefits, other operating expenses, supplies expense and provision for doubtful accounts) as a percentage of net revenues were 82.8% in 2002, 82.2% in 2001 and 81.4% in 2000. Operating margins (defined as net revenues less operating expenses divided by net revenues) at these facilities were 17.2% in 2002, 17.8% in 2001 and 18.6% in 2000. On a same facility basis during 2002 as compared to 2001, operating expenses as a percentage of net revenues at the Company's acute care hospitals located in the U.S. and Puerto Rico were 82.5% in 2002 and 82.3% in 2001 as operating margins at these facilities were 17.5% in 2002 and 17.7% in 2001. On a same facility basis during 2001 as compared to 2000, operating expenses as a percentage of net revenues at these facilities were 82.6% in 2001 and 81.6% in 2000 as operating margins at these facilities were 17.4% in 2001 and 18.4% in 2000.

Favorably impacting the operating margins at the Company's acute care hospitals located in the U.S. and Puerto Rico during 2002 as compared to 2001 was a reduction in the provision for doubtful accounts which, as a percentage of net revenues, decreased to 8.3% in 2002 as compared to 9.7% in 2001. This improvement was primarily attributable to more aggressive efforts to properly categorize charges related to charity care, improved billing and collection procedures and an increase in collection of amounts previously reserved. Unfavorably impacting the operating margins at these facilities during 2002 as compared to 2001 was an increase in other operating expenses which increased to 23.8% of net revenues in 2002 as compared to 22.5% in 2001 and an increase in salaries, wages and benefits which increased to 36.2% of net revenues in 2002 as compared to 35.5% in 2001. The increase in other operating expenses was due primarily to a significant increase in professional and general liability insurance expense caused by unfavorable pricing and availability trends of commercial insurance (see General Trends). The increase in salaries, wages and benefits was due primarily to rising labor rates particularly in the area of skilled nursing. The Company expects the expense factors mentioned above to continue to pressure future operating margins.

Despite the strong revenue growth experienced at the Company's acute care facilities during 2001 as compared to 2000, operating margins at these facilities were lower in 2001 as compared to the prior year due primarily to increases in salaries, wages and benefits, pharmaceutical expense and insurance expense. Salaries,

wages and benefits increased primarily as a result of rising labor rates, particularly in the area of skilled nursing and the increase in pharmaceutical expense was caused primarily by increased utilization of high-cost drugs. The Company experienced an increase in insurance expense on the self-insured retention limits at certain of its subsidiaries caused primarily by unfavorable industry-wide pricing trends for hospital professional and general liability coverage.

Behavioral Health Services

On a same facility basis, net revenues at the Company's behavioral health care facilities increased 4% in 2002 as compared to 2001 and 7% in 2001 as compared to 2000. Admissions and patient days at these facilities increased 6.4% and 5.2%, respectively, in 2002 as compared to 2001 as the average length of stay decreased to 11.9 days in 2002 as compared to 12.1 days in 2001. Admissions and patient days at the Company's behavioral health care facilities owned in both 2001 and 2000 increased 6.7% and 4.4%, respectively, in 2001 as compared to 2000 as the average length of stay decreased to 11.9 days in 2001 as compared to 12.2 days in 2000.

On a same facility basis, at the Company's behavioral health care facilities, net revenue per adjusted admission (adjusted for outpatient activity) decreased 0.4% and net revenue per adjusted patient day (adjusted for outpatient activity) increased 1.1% in 2002 as compared to 2001. Also on a same facility basis, net revenue per adjusted admission increased 1.7% and net revenue per adjusted patient day increased 4.2% in 2001 as compared to 2000.

Behavioral health facilities, which are excluded from the inpatient services prospective payment system ("PPS") applicable to acute care hospitals, 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 Balanced Budget Act of 1997 ("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 Centers 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 Medicare, Medicaid and SCHIP Balance Budget Refinement Act 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 implementation of this PPS for inpatient services furnished by behavioral health hospitals has been delayed until the first 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 can not predict the ultimate effect of inpatient PPS on the Company's future operating results until the provisions are finalized. During 2002, 2001 and 2000, 35%, 38% and 45%, 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 2002, 2001 and 2000, 48%, 39% and 35%, 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 and benefits, other operating expenses, supplies expense and provision for doubtful accounts) as a percentage of net revenues were 79.8% in 2002, 81.0% in 2001 and 81.8% in 2000. The Company's behavioral health care division generated

operating margins (defined as net revenues less operating expenses divided by net revenues) of 20.2% in 2002, 19.0% in 2001 and 18.2% in 2000. On a same facility basis during 2002 as compared to 2001, operating expenses as a percentage of net revenues at the Company's behavioral health care facilities were 79.7% in 2002 and 81.0% in 2001 as operating margins at these facilities were 20.3% in 2002 and 19.0% in 2001. On a same facility basis during 2001 as compared to 2000, operating expenses as a percentage of net revenues at these facilities were 80.3% in 2001 and 81.8% in 2000 as operating margins at these facilities were 19.7% in 2001 and 18.2% in 2000. 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 nine hospitals in France increased to $161 million during 2002 as compared to $113 million in 2001 and $61 million in 2000. The increase in combined net revenues in 2002 and 2001 as compared to 2000 was primarily attributable to the Company's purchase, in March of 2001, of an 80% ownership interest in an operating company that owns nine hospitals located in France. Combined operating margins from the Company's other operating entities were 21.3% in 2002, 20.2% in 2001 and 15.1% in 2000.

During the fourth quarter of 2001, the Company recorded the following charges: (i) a $40.0 million pre-tax charge to reserve for malpractice expenses that may result from the Company's third party malpractice insurance company (PHICO) that was placed in liquidation in February, 2002 (see General Trends); (ii) a $7.4 million pre-tax loss on derivative transactions resulting from the early termination of interest rate swaps, and; (iii) a $1.0 million after-tax ($1.6 million pre-tax) extraordinary expense resulting from the early redemption of the Company's $135 million 8.75% notes issued in 1995.

During the fourth quarter of 2000, the Company recognized a pre-tax charge of $7.7 million to reflect the amount of an unfavorable jury verdict and reserve for future legal costs relating to an unprofitable facility that was closed during the first quarter of 2001. During 2001, an appellate court issued an opinion affirming the jury verdict and during the first quarter of 2002, the Company filed a petition for review by the Texas Supreme Court, which has accepted the case for review. During the fourth quarter of 2002, as a result of the sale of the real estate of this closed facility, the Company recorded a pre-tax $2.2 million recovery of facility closure costs. During 2002 and 2001, pending the outcome of the state supreme court review, the Company recorded interest expense related to this unfavorable jury verdict of $700,000 in each year.

The Company recorded minority interest expense in the earnings of consolidated entities amounting to $19.7 million in 2002, $17.5 million in 2001 and $13.7 million in 2000. 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 nine acute care facilities located in France (acquired during 2001).

Depreciation and amortization expense was $124.8 million in 2002, $127.5 million in 2001 and $112.8 million in 2000. Effective January 1, 2002, the Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" and accordingly, ceased amortizing goodwill as of that date. For the years ended December 31, 2001 and 2000, the Company recorded $24.7 million and $19.5 million of pre-tax goodwill amortization expense, respectively. Substantially offsetting the decrease during 2002 as compared to 2001 caused by the adoption of SFAS No. 142 was an increase in depreciation expense during 2002 attributable to capital additions and acquisitions, including depreciation expense on the newly constructed 371-bed George Washington University Hospital which opened during the third quarter of 2002.

The effective tax rate was 36.7% in 2002, 36.2% in 2001 and 36.1% in 2000.

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 42%, 42% and 44% of the Company's net patient revenues during 2002, 2001 and 2000, 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 the 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.

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 certain behavioral health services facilities. Effective for Medicare cost reporting periods beginning on or after October 1, 1997, different caps are applied to certain 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 Centers 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 certain 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 implementation of this PPS for inpatient services furnished by certain behavioral health hospitals has been delayed until the first 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 can not 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 addition, without further Congressional action, in fiscal year 2003 hospitals will receive 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 estimated to equal 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 percent. 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, however, the impact is not expected to have a material effect on the Company's future results of operations.

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 standard DRG payment 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 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 in any state in which it operates, 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 Health and Human Services Commission 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 a 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 $33.0 million in 2002, $32.6 million in 2001 and $28.9 million in 2000, 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 federal and state laws and regulations which include, among other things, participation requirements of federal and state health care programs, various licensure and accreditation requirements, reimbursement rules for patient services, False Claims Act provisions, patient privacy rules and Medicare and Medicaid anti-fraud and abuse provisions. Providers that are found to have violated these laws and regulations may be excluded from participating in federal and state 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 applicable laws and regulations, no assurance can be given that the Company will not be subjected to governmental inquiries or actions or that governmental authorities may not find the Company to be in violation of a law or regulation as a result of an inquiry or action.

The Company voluntarily maintains a corporate compliance program. The program is designed to monitor and raise awareness of various regulatory issues among employees, to stress the importance of complying with all federal and state laws and regulations and to promote the Company's standards of conduct. As part of the program, the Company provides ethics and compliance training to its employees. The Company also provides additional compliance training in specialized areas to the employees responsible for these areas. The program encourages all employees to report any potential or perceived violations directly to the applicable compliance officer or to the Company through the use of a toll-free telephone hotline or a compliance post office box.

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 39% in 2002, 37% in 2001 and 35% in 2000, 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 two 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. Total insurance expense including professional and general liability, property, auto and workers' compensation, was approximately $25 million higher in 2002 as compared to 2001. 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 professional and general liability insurance policies with PHICO, a Pennsylvania-based commercial insurance company. Certain subsidiaries, including hospitals located in Washington, D.C., Puerto Rico and south Texas were covered under policies with various coverage limits up to $5 million per occurrence through December 31, 2001. The majority of the remaining subsidiaries were covered under policies, which provided for a self-insured retention limit up to $1 million per occurrence, with an annual aggregate of approximately $4 million in 1998, $5 million in 1999, $7 million in 2000 and $11 million in 2001. These subsidiaries maintain excess coverage up to $100 million with other major insurance carriers.

Early in the first quarter of 2002, PHICO was placed in liquidation by the Pennsylvania Insurance Commissioner. As a result, during the fourth quarter of 2001, the Company recorded a $40 million pre-tax charge to earnings to accrue for its estimated liability that resulted from this event. Management estimated this liability based on a number of factors including, among other things, the number of asserted claims and reported incidents, estimates of losses for these claims based on recent and historical settlement amounts, estimates of unasserted claims based on historical experience, and estimated recoveries from state guaranty funds.

When PHICO entered liquidation proceedings, each state's department of insurance was required to declare PHICO as insolvent or impaired. That designation effectively triggers coverage under the applicable state's insurance guarantee association, which operates as replacement coverage, subject to the terms, conditions and limits set forth in that particular state. Therefore, the Company is entitled to receive reimbursement from those state's guarantee funds for which it meets the eligibility requirements. In addition, the Company may be entitled to receive reimbursement from PHICO's estate for a portion of the claims ultimately paid by the Company. Management expects that the remaining cash payments related to these claims will be made over the next seven years as the cases are settled or adjudicated.

Included in other assets as of December 31, 2002 and 2001, were estimates of approximately $37 million and $54 million, respectively, representing expected recoveries from various state guaranty funds. The reduction in estimated recoveries as of December 31, 2002 as compared to December 31, 2001 is due to Management's

reassessment of its ultimate liability for general and professional liability claims relating to the period from 1998 through 2001, its estimate of related recoveries under state guaranty funds, and payments received during 2002 from such state guaranty funds. While Management continues to monitor the factors used in making these estimates, the Company's ultimate liability for professional and general liability claims and its actual recoveries from state guaranty funds, could change materially from current estimates due to the inherent uncertainties involved in making such estimates. Therefore, there can be no assurance that changes in these estimates, if any, will not have a material adverse effect on the Company's financial position, results of operations or cash flows in future periods.

As of December 31, 2002, the total accrual for the Company's professional and general liability claims, including all PHICO related claims was $168.2 million ($131.2 million net of expected recoveries from state guaranty funds), of which $12.0 million is included in other current liabilities. As of December 31, 2001, the total reserve for the Company's professional and general liability claims was $158.1 million ($104.1 million net of expected recoveries from state guaranty funds), of which $26.0 million is included in other current liabilities.

The Company maintains a non-contributory defined benefit plan which covers the employees of one of the Company's subsidiaries. The benefits are based on years of service and the employee's highest compensation for any five years of employment. The Company's funding policy is to contribute annually at least the minimum amount that should be funded in accordance with the provisions of ERISA. The plan had invested assets with a market value as of December 31, 2002 of $42.9 million of which approximately 70% were invested in equity based securities and 30% in fixed income securities. As a result of the unfavorable general market conditions and lower than anticipated returns on assets, the Company believes its expense related to this plan will be $3 million higher in 2003 as compared to 2002.

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 privacy 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 must comply with the privacy regulations by April 2003.

(iii) Creating unique identifiers for the four constituents in healthcare: payors, providers, patients and employers. HIPAA mandates 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 implementing the necessary changes required pursuant to 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.

Market Risks Associated with Financial Instruments

The Company's interest expense is sensitive to changes in the general level of interest rates. To mitigate the impact of fluctuations in domestic interest rates, a portion of the Company's debt is fixed rate accomplished by either borrowing on a long-term basis at fixed rates or by entering into interest rate swap transactions. The interest rate swap agreements are contracts that require the Company to pay fixed and receive floating interest rates over the life of the agreements. The floating-rates are based on LIBOR and the fixed-rate is determined at the time the swap agreement is consummated.

As of December 31, 2002, the Company had three U.S. dollar interest rate swaps. One fixed rate swap with a notional principal amount of $125 million 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 December 31, 2002, the effective floating rate of this interest rate swap was 1.40%. The Company is also a party to two floating rate swaps having a 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. As of December 31, 2002, the average floating rate of the $60 million of interest rate swaps was 2.68%.

As of December 31, 2002, a majority-owned subsidiary of the Company had two interest rate swaps denominated in Euros. These two interest rate swaps are for a total notional amount of 41.2 million Euros ($40.9 million based on the end of period currency exchange rate). The notional amount decreases to 35.0 million Euros ($34.8 million) on December 30, 2003, 27.5 million Euros, ($27.3 million) on December 30, 2004 and the swaps mature 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 December 31, 2002 was 2.87%.

The interest rate swap agreements do not constitute positions independent of the underlying exposures. The Company does not hold or issue derivative instruments for trading purposes and is not a party to any instruments with leverage features. The Company is exposed to credit losses in the event of nonperformance by the counterparties to its financial instruments. The counterparties are creditworthy financial institutions, rated AA or better by Moody's Investor Services and the Company anticipates that the counterparties will be able to fully satisfy their obligations under the contracts. For the years ended December 31, 2002, 2001 and 2000, the Company received weighted average rates of 3.5%, 5.9% and 7.2%, respectively, and paid a weighted average rate on its interest rate swap agreements of 5.7% in 2002, 6.9% in 2001 and 7.5% in 2000.

The table below presents information about the Company's derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including long-term debt and interest rate swaps as of December 31, 2002. For debt obligations, the table presents principal cash flows and related

weighted-average interest rates by contractual maturity dates. For interest rate swap agreements, the table presents notional amounts by maturity date and weighted average interest rates based on rates in effect at December 31, 2002. The fair values of long-term debt and interest rate swaps were determined based on market prices quoted at December 31, 2002, for the same or similar debt issues.

Maturity Date, Fiscal Year Ending December 31
(Dollars in thousands)

	2003	2004	2005	2006	2007	There-after	Total
Long-term debt:							
Fixed rate—Fair value	$ 3,715	$ 6,573	$ 3,346	$ 2,965	$1,051	$ 587,787(a)	$605,437
Fixed rate—Carrying value	$ 3,715	$ 6,573	$ 3,346	$ 2,965	$1,051	$ 485,477	$503,127
Average interest rates	6.7%	7.6%	5.8%	5.6%	4.8%	5.8%	5.8%
Variable rate long-term debt	$ 4,539	$ 6,059	$ 7,568	$139,088	$9,088	$ 19,298	$185,640
Interest rate swaps:							
Pay fixed/receive variable notional amounts			$ 125,000				$125,000
Fair value			$ (15,648)				$ (15,648)
Average pay rate			6.76%				
Average receive rate			3 month LIBOR				
Pay variable/receive fixed notional amounts						$ (60,000)	$ (60,000)
Fair value						$ 6,517	$ 6,517
Average pay rate						6 Month LIBOR plus spread	
Average receive rate						6.75%	
Euro denominated Swaps:							
Pay fixed/receive variable notional amount	$ 6,055	$ 7,568	$ 27,276				$ 40,899
Fair value			$ (1,223)				$ (1,223)
Average pay rate	4.4%	4.4%	4.4%				
Average receive rate	6 Month EURIBOR	6 Month EURIBOR	6 Month EURIBOR				

(a) The fair value of the Company's 5% Convertible Debentures ("Debentures") at December 31, 2002 is $375 million, however, the Company has the right to redeem the Debentures any time on or after June 23, 2006 at a price equal to the issue price of the Debentures plus accrued original issue discount and accrued cash interest to the date of redemption. On June 23, 2006 the amount necessary to redeem all Debentures would be $319 million. If the Debentures could be redeemed at the same basis at December 31, 2002 the redemption amount would be $276 million. The holders of the Debentures may convert the Debentures to the Company's Class B stock at any time. If all Debentures were converted, the result would be the issuance of 6.6 million shares of the Company's Class B Common Stock.

Effects of Inflation and Seasonality

Although inflation has not had a material impact on the Company's results of operations over the last three years, the healthcare industry is very labor intensive and salaries and benefits are subject to inflationary pressures as are rising supply costs which tend to escalate as vendors pass on the rising costs through price increases. The Company's acute care and behavioral health care facilities are experiencing the effects of the tight labor market,

including a shortage of nurses, which has caused and may continue to cause an increase in the Company's salaries, wages and benefits expense in excess of the inflation rate. In addition, due to unfavorable pricing and availability trends in the professional and general liability insurance markets, the cost of commercial professional and general liability insurance coverage has risen significantly. As a result, on an annual basis, the Company's total insurance expense, including professional and general liability, property, auto and workers' compensation, was approximately $25 million higher in 2002 as compared to 2001 and is expected to increase by approximately $9 million or 15% in 2003 as compared to 2002. The Company's subsidiaries have also assumed a greater portion of the hospital professional and general liability risk.

Although the Company cannot predict its ability to continue to cover future cost increases, Management believes that through adherence to cost containment policies, labor management and reasonable price increases, the effects of inflation on future operating margins should be manageable. However, the Company's ability to pass on these increased costs associated with providing healthcare to Medicare and Medicaid patients is limited due to various federal, state and local laws which have been enacted that, in certain cases, limit the Company's ability to increase prices. In addition, as a result of increasing regulatory and competitive pressures and a continuing industry wide shift of patients into managed care plans, the Company's ability to maintain margins through price increases to non-Medicare patients is limited.

The Company's business is seasonal, with higher patient volumes and net patient service revenue in the first and fourth quarters of the Company's year. This seasonality occurs because, generally, more people become ill during the winter months, which results in significant increases in the number of patients treated in the Company's hospitals during those months.

Liquidity and Capital Resources

Net cash provided by operating activities was $331 million in 2002, $298 million in 2001 and $175 million in 2000. The $33 million increase during 2002 as compared to 2001 was primarily attributable to: (i) a favorable $23 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, losses on foreign exchange, derivative transactions & debt extinguishment and provision for insurance settlements and other non-cash charges); (ii) a $36 million unfavorable change in accounts receivable (partially due to the timing of Medicare settlements and the increased patient volume and revenue at the new George Washington University Hospital which opened during the third quarter of 2002); (iii) a $19 million favorable change in accrued insurance expense net of payments made in settlement of self-insurance claims and commercial premiums paid caused primarily by the Company's subsidiaries assuming a greater portion of the professional and general liability risk beginning in January, 2002; (iv) a $17 million favorable change due to timing of income tax payments, and; (v) $10 million of other net favorable working capital changes.

The $123 million increase during 2001 as compared to 2000 was primarily attributable to: (i) a favorable $69 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, losses on foreign exchange, derivative transactions & debt extinguishment and provision for insurance settlement and other non-cash charges); (ii) an unfavorable $38 million change due to timing of net income tax payments; (iii) a $31 favorable change in accounts receivable; (iv) a $28 million favorable change in other assets and deferred charges, and; (v) $33 million of other net favorable working capital changes. Included in the $69 million favorable change in income plus the addback of adjustments to reconcile net cash provided by operating activities was a pre-tax $40 million non-cash reserve established during the fourth quarter of 2001 related to the liquidation of PHICO, the Company's third party hospital professional and general liability insurance company (see General Trends). The increase in net income taxes paid during 2001 was due to a reduction in the 2000 net income tax payments resulting primarily from higher tax benefits from employee stock options and the decreases in accrued taxes attributable to overpayments in 1999. The $31 million favorable change in accounts receivable resulted from improved accounts receivable management during 2001.

Capital expenditures were $201 million in 2002, $153 million in 2001 and $114 million in 2000. Included in the 2002 capital expenditures were costs related to the completion of the new George Washington University Hospital located in Washington, D.C. (opened in August, 2002), a 56-bed patient tower at Auburn Regional Medical Center located in Auburn, Washington (opened in January 2003) and the first phase of a new 176-bed acute care hospital located in Las Vegas, Nevada (scheduled to be completed in the fourth quarter of 2003). Capital expenditures for capital equipment, renovations and new projects at existing hospitals and completion of major construction projects in progress at December 31, 2002 are expected to total approximately $225 million to $240 million in 2003. Included in the 2003 projected capital expenditures are the expenditures on 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 May, 2004). Included in the 2001 capital expenditures were costs related to the completion of a 180-bed acute care hospital located in Laredo, Texas and the 126-bed addition to the Desert Springs Hospital in Las Vegas, Nevada. The Company believes that its capital expenditure program is adequate to expand, improve and equip its existing hospitals.

During 2002, the Company spent $3 million to acquire a majority ownership interest in an outpatient surgery center located in Puerto Rico. During 2001, the Company spent $263 million to acquire the assets and operations of: (i) four acute care facilities located in the U.S. (two of which were effective on January 1, 2002); (ii) two behavioral health care facilities located in the U.S. and one located in Puerto Rico; (iii) an 80% ownership interest in a French hospital company that owns nine hospitals located in France, and; (iv) majority ownership interests in two ambulatory surgery centers. During 2000, the Company spent $141 million to acquire the assets and operations of twelve behavioral health care facilities and two acute care hospitals and $12 million to acquire a minority ownership interest in an e-commerce marketplace for the purchase and sale of health care supplies, equipment and services to the healthcare industry.

During 2002, the Company received net cash proceeds of $8 million resulting from the sale of real estate related to a women's hospital and radiation oncology center both of which were closed in a prior year and written down to their estimated net realizable values. The sale of the real property of the women's hospital resulted in a $2.2 million recovery of closure costs and the net gain on the sale of the assets of the radiation therapy center did not have a material impact on the 2002 results of operations. During 2000, the Company received net cash proceeds of $16 million resulting from the divestiture of the real property of a behavioral health care facility located in Florida, a medical office building located in Nevada, and its ownership interests in a specialized women's health center and two physician practices located in Oklahoma. The net gain/loss resulting from these transactions did not have a material impact on the 2000 results of operations

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 2.4 million shares at an average purchase price of $14.95 per share ($36.0 million in the aggregate) during 2000, 178,000 shares at an average purchase price of $43.33 per share ($7.7 million in the aggregate) during 2001 and 1.7 million shares at an average purchase price of $44.71 per share ($76.6 million in the aggregate) during 2002. Since inception of the stock purchase program in 1998 through December 31, 2002, the Company purchased a total of 9.5 million shares at an average purchase price of $22.74 per share ($216.4 million in the aggregate).

In April, 2001, the Company declared a two-for-one stock split in the form of a 100% stock dividend which was paid on June 1, 2001 to shareholders of record as of May 16, 2001. All classes of common stock participated on a pro rata basis and all references to share quantities and earnings per share for all periods presented have been adjusted to reflect the two-for-one stock split.

The Company has a $400 million unsecured non-amortizing revolving credit agreement, which expires on December 13, 2006. The agreement includes a $50 million sublimit for letters of credit of which $29 million was

available at December 31, 2002. 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 1.150% 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 LIBOR rates and the facility fee are based upon the Company's leverage ratio. At December 31, 2002, the applicable margins over the certificate of deposit and the LIBOR rate were 1.125% and 1.00%, respectively, and the commitment fee was .25 %. There are no compensating balance requirements. At December 31, 2002, the Company had $349 million of unused borrowing capacity available under the revolving credit agreement.

During 2001, the Company issued $200 million of Senior Notes which have a 6.75% coupon rate and which mature on November 15, 2011. ("Notes"). The interest on the Notes is paid semiannually in arrears on May 15 and November 15 of each year. The notes can be redeemed in whole at any time and in part from time to time.

The Company also has a $100 million commercial paper credit facility. The majority of the Company's acute care patient accounts receivable 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. As of December 31, 2002, the Company had no unused borrowing capacity under the terms of the commercial paper facility.

During the fourth quarter of 2001, the Company redeemed all of its outstanding $135.0 million, 8.75% Senior Notes ("Senior Notes") due 2005 for an aggregate redemption price of $136.5 million. The redemption of the Senior Notes was financed with borrowings under the Company's commercial paper and revolving credit facilities. In connection with the redemption of the Senior Notes, the Company recorded a net loss on debt extinguishment of $1.6 million during the fourth quarter of 2001.

The Company issued discounted Convertible Debentures in 2000 which are due in 2020 ("Debentures"). The aggregate issue price of the Debentures was $250 million or $587 million aggregate principal amount at maturity. The Debentures were issued at a price of $425.90 per $1,000 principal amount of Debenture. The Debentures' yield to maturity is 5% per annum, .426% of which is cash interest. The interest on the bonds is paid semiannually in arrears on June 23 and December 23 of each year. The Debentures are convertible at the option of the holders into 5.6024 shares of the Company's Class B Common Stock per $1,000 of Debentures, however, the Company has the right to redeem the Debenture any time on or after June 23, 2006 at a price equal to the issue price of the Debentures plus accrued original issue discount and accrued cash interest to the date of redemption.

During 2002, a majority-owned subsidiary of the Company entered into a senior credit agreement denominated in Euros amounting to 45.8 million Euros ($44.9 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 and six month EURIBOR plus a spread of 2.5%. As of December 31, 2002, the interest rate was 5.4% and the effective interest rate including the effects of the designated interest rate swaps was 6.9%.

The average amounts outstanding during 2002, 2001 and 2000 under the revolving credit and demand notes and commercial paper program were $140.3 million, $220.0 million and $170.0 million, respectively, with corresponding effective interest rates of 3.3%, 5.1% and 7.4% including commitment and facility fees. The maximum amounts outstanding at any month-end were, $170.0 million in 2002, $343.9 million in 2001 and $270.9 million in 2000.

Total debt as a percentage of total capitalization was 43% at December 31, 2002 and 47% at December 31, 2001.

The Company has two floating rate swaps having a 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. As of December 31, 2002, the average floating rate of the $60 million of interest rate swaps was 2.68%. During 2002 the Company recorded a decrease of $8.0 million in other assets to recognize the fair value of these swaps and a $8.0 million increase of long term debt to recognize the difference between the carrying value and fair value of the related hedged liability.

As of December 31, 2002, 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 December 31, 2002, the floating rate of this interest rate swap was 1.40%.

As of December 31, 2002, a majority-owned subsidiary of the Company had two interest rate swaps denominated in Euros. These two interest rate swaps are for a total notional amount of 41.2 million Euros ($40.9 million based on the end of period currency exchange rate). The notional amount decreases to 35.0 million Euros ($34.8 million) on December 30, 2003, 27.5 million Euros, ($27.3 million) on December 30, 2004 and the swaps mature 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 December 31, 2002 was 2.87%.

During the year ended December 31, 2002 and 2001, the Company recorded in accumulated other comprehensive income (“AOCI”), pre-tax losses of $6.4 million ($4.1 million after-tax) to recognize the change in fair value of all derivatives that are designated as cash flow hedging instruments. The income 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 December 31, 2002, it is expected that $7.2 million of pre-tax net losses in accumulated AOCI will be reclassified into earnings within the next twelve months. During the year ended December 31, 2002, the Company also recorded $169,000 ($107,000 after-tax) to recognize the ineffective portion of the cash flow hedging instruments. As of December 31, 2002, 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.

Upon the adoption of SFAS No. 133 on January 1, 2001, the Company recorded the cumulative effect of an accounting change of approximately $7.6 million ($4.8 million after-tax) in accumulated other comprehensive income (loss) to recognize the fair value of all derivatives that were designated as cash flow hedging instruments. During the year ended December 31, 2001, the Company recorded, in AOCI, a pre-tax charge of $2.4 million ($1.5 million after-tax) to recognize the change in fair value of all derivatives that were designated as cash flow hedging instruments. During the year ended December 31, 2001, the Company also recorded a charge to earnings of approximately $300,000 ($200,000 after-tax) to recognize the ineffective portion of its cash flow hedging instruments.

The Company had a fixed rate swap having a notional principal amount of $135 million whereby the Company paid a fixed rate of 6.76% and received a floating rate from the counter-party. During 2001, the notional amount of this swap was reduced to $125 million. The Company had two interest rate swaps to fix the rate of interest on a total notional principal amount of $75 million with a scheduled maturity date of August, 2005 that were terminated in November, 2001. The average fixed rate on the $75 million of interest rate swaps including the Company’s borrowing spread of .35%, was 7.05%. The total cost of all swaps terminated in 2001 was $7.4 million. This amount was reclassified from accumulated other comprehensive loss due to the probability of the original forecasted interest payments not occurring.

The effective interest rate on the Company’s revolving credit, demand notes and commercial paper program, including the respective interest expense and income incurred on existing and now expired designated interest

rate swaps, was 6.3%, 6.4% and 7.1% during 2002, 2001 and 2000, respectively. Additional interest (expense)/income recorded as a result of the Company's U.S. dollar denominated hedging activity was ($4,228,000) in 2002, ($2,730,000) in 2001 and $414,000 in 2000. The Company is exposed to credit loss in the event of non-performance by the counter-party to the interest rate swap agreements. All of the counter-parties are creditworthy financial institutions rated AA or better by Moody's Investor Service and the Company does not anticipate non-performance. The estimated fair value of the cost to the Company to terminate the interest rate swap obligations, including the Euro denominated interest rate swaps, at December 31, 2002 and 2001 was approximately $10.4 million and $11.7 million, respectively.

Covenants relating to long-term debt require maintenance of a minimum net worth, specified debt to total capital and fixed charge coverage ratios. The Company is in compliance with all required covenants as of December 31, 2002.

The fair value of the Company's long-term debt at December 31, 2002 and 2001 was approximately $791.1 million and $751.5 million, respectively.

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

The following represents the scheduled maturities of the Company's contractual obligations as of December 31, 2002**:**

	Payments Due by Period (dollars in thousands)				
Contractual Obligation	**Total**	**Less than 1 Year**	**2-3 years**	**4-5 years**	**After 5 years**
Long-term debt-fixed (a)	$ 503,127	$ 3,715	$ 9,919	$ 4,016	$ 485,477 (b)
Long-term debt-variable	185,640	4,538	13,628	148,176	19,298
Accrued interest	3,690	3,690	—	—	—
Construction commitments (c)	40,000	—	—	40,000	—
Operating leases	105,860	32,704	49,151	18,957	5,048
Total contractual cash Obligations	$ 838,317	$ 44,647	$ 72,698	$ 211,149	$ 509,823

(a) Includes capital lease obligations
(b) Amount is presented net of discount on Convertible Debentures of $310,527
(c) Estimated cost of completion on the construction of a new 100-bed acute care facility in Eagle Pass, Texas.

Significant Accounting Policies

The Company has determined that the following accounting policies and estimates are critical to the understanding of the Company's consolidated financial statements.

Revenue Recognition: Revenue and the related receivables for health care services are recorded in the accounting records, at the time the services are rendered, on an accrual basis at the Company's established charges. The provision for contractual adjustments, which represents the difference between established charges and estimated third-party payor payments, is also recognized on an accrual basis and deducted from gross revenue to determine net revenues. Payment arrangements with third-party payors may include prospectively determined rates per discharge, a discount from established charges, per-diem payments and reimbursed costs. Estimates of contractual adjustments are reported in the period during which the services are provided and adjusted in future periods, as the actual amounts become known. Revenues recorded under cost-based reimbursement programs may be adjusted in future periods as a result of audits, reviews or investigations. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to

interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. Medicare and Medicaid net revenues represented 42%, 42% and 44% of net patient revenues for the years 2002, 2001 and 2000, respectively. In addition, approximately 39% in 2002, 37% in 2001 and 35% in 2000, of the Company's net patient revenues were generated from managed care companies, which includes health maintenance organizations and preferred provider organizations.

The Company establishes an allowance for doubtful accounts to reduce its receivables to their net realizable value. The allowances are estimated by management based on general factors such as payor mix, the agings of the receivables and historical collection experience. At December 31, 2002 and 2001, accounts receivable are recorded net of allowance for doubtful accounts of $59.1 million and $61.1 million, respectively.

The Company provides care to patients who meet certain financial or economic criteria without charge or at amounts substantially less than its established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, they are not reported in net revenues or in provision for doubtful accounts.

Self-Insured Risks: The Company provides for self-insured risks, primarily general and professional liability claims and workers' compensation claims, based on estimates of the ultimate costs for both reported claims and claims incurred by not reported.

The ultimate costs of such claims, which include costs associated with litigating or settling claims, are accrued when the incidents that give rise to the claims occur. Estimated losses from asserted and unasserted claims are accrued, based on Management's estimates of the ultimate costs of the claims and the relationship of past reported incidents to eventual claims payments. All relevant information, including the Company's own historical experience, the nature and extent of existing asserted claims, and reported incidents, and independent actuarial analyses of this information, is used in estimating the expected amount of claims. The accrual also includes an estimate of the losses that will result from unreported incidents, which are probable of having occurred before the end of the reporting period.

In addition, the Company also maintains self-insured employee benefits programs for healthcare and dental claims. The ultimate costs related to these programs includes expenses for claims incurred and paid in addition to an accrual for the estimated expenses incurred in connection with claims incurred but not yet reported.

Estimated losses are reviewed and changed, if necessary, at each reporting date. The amounts of the changes are recognized currently as additional expense or as a reduction of expense.

Reference is made to Note 1 to the financial statements for additional information on other accounting policies and new accounting pronouncements.

Related Party Transactions:

At December 31, 2002, 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 this advisory agreement, the Company conducts the Trust's day to day affairs, provides administrative services and presents investment opportunities. 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, 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 $1.4 million during 2002, $1.3 million during 2001 and $1.2 million during 2000, and is included in net revenues in the accompanying consolidated statements of income. The carrying value of this investment was $9.1 million and $9.0 million at December 31, 2002 and 2001, respectively, and is included in other assets in the accompanying consolidated balance sheets. The market value of this investment was $20.3 million at December 31, 2002 and $18.0 million at December 31, 2001.

As of December 31, 2002, the Company leased six hospital facilities from the Trust with terms expiring in 2004 through 2008. These leases contain up to six 5-year renewal options. During 2002, the Company exercised the five-year renewal option on an acute care hospital leased from the Trust which was scheduled to expire in 2003. The renewal rate on this facility is based upon the five year Treasury rate on March 29, 2003 plus a spread. Future minimum lease payments to the Trust are included in Note 7. Total rent expense under these operating leases was $17.2 million in 2002, $16.5 million in 2001 and $17.1 million in 2000. The terms of the lease provide that in the event the Company discontinues operations at the leased facility for more than one year, the Company is obligated to offer a substitute property. If the Trust does not accept the substitute property offered, the Company is obligated to purchase the leased facility back from the Trust at a price equal to the greater of its then fair market value or the original purchase price paid by the Trust. As of December 31, 2002, the aggregate fair market value of the Company's facilities leased from the Trust is not known, however, the aggregate original purchase price paid by the Trust for these properties was $112.5 million. The Company received an advisory fee from the Trust of $1.4 million in 2002 and $1.3 million in both 2001 and 2000 for investment and administrative services provided under a contractual agreement which is included in net revenues in the accompanying consolidated statements of income.

During 2000, the Company sold the real property of a medical office building to a limited liability company that is majority owned by the Trust for cash proceeds of approximately $10.5 million. Tenants in the multi-tenant building include subsidiaries of the Company as well as unrelated parties.

In connection with a long-term incentive compensation plan that was terminated during the third quarter of 2002, the Company had $18 million as of December 31, 2002 and $21 million as of December 31, 2001, of gross loans outstanding to various employees of which $15 million as of December 31, 2002 and $18 million as of December 31, 2001 were charged to compensation expense through that date. Included in the gross loan amounts outstanding were loans to officers of the Company amounting to $13 million as of December 31, 2002 and $16 million as of December 31, 2001 (see Note 5).

The Company's Chairman and Chief Executive Officer is member of the Board of Directors of Broadlane, Inc. In addition, the Company and certain members of executive management own approximately 6% of the outstanding shares of Broadlane, Inc. as of December 31, 2002. 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. Another member of the Company's Board of Directors and member of the Board's Executive and Audit Committees was formerly Senior Vice Chairman and Managing Director of the investment banking firm used by the Company as one of its Initial Purchasers for the Convertible Debentures issued in 2000.

ITEM 7.a. ***Qualitative and Quantitative Disclosures About Market Risk***

See Item 7. Management's Discussion and Analysis of Operations and Financial Condition—Market Risks Associated with Financial Instruments

ITEM 8. ***Financial Statements and Supplementary Data***

The Company's Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Common Stockholders' Equity, and Consolidated Statements of Cash Flows, together with the reports of KPMG LLP and a previously issued report of Arthur Andersen LLP, independent public accountants, are included elsewhere herein. Reference is made to the "Index to Financial Statements and Financial Statement Schedule." The report of Arthur Andersen LLP has not been reissued.

ITEM 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

There were no disagreements with accountants on accounting and financial disclosures during the last three fiscal years. On June 18, 2002, the Company dismissed Arthur Andersen LLP as the Company's independent public accountants and decided to engage KPMG LLP to serve as the Company's independent public accountant for 2002. The Company's decision to change its independent accountants was approved by the Board of Directors upon recommendation of the Audit Committee. For more information with respect to this matter, see the Company's current report on Form 8-K filed on June 18, 2002.

PART III

ITEM 10. ***Directors and Executive Officers of the Registrant***

There is hereby incorporated by reference the information to appear under the caption "Election of Directors" in the Company's Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after December 31, 2002. See also "Executive Officers of the Registrant" appearing in Part I hereof.

ITEM 11. ***Executive Compensation***

There is hereby incorporated by reference the information to appear under the caption "Executive Compensation" in the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after December 31, 2002.

ITEM 12. ***Security Ownership of Certain Beneficial Owners and Management***

There is hereby incorporated by reference the information to appear under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Company's Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after December 31, 2002.

ITEM 13. ***Certain Relationships and Related Transactions***

There is hereby incorporated by reference the information to appear under the caption "Certain Relationships and Related Transactions" in the Company's Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after December 31, 2002.

ITEM 14. ***Controls and Procedures***

Within 90 days prior to the date of this Form 10-K, an evaluation was performed under the supervision and with the participation of Management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, Management of the Company, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in our internal controls and procedures or in other factors that could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

PART IV

ITEM 15. ***Exhibits, Financial Statement Schedules and Reports on Form 8-K***

(a) 1. and 2. Financial Statements and Financial Statement Schedule.

See Index to Financial Statements and Financial Statement Schedule.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the last quarter of the year ended December 31, 2002.

(c) Exhibits

3.1 Company's Restated Certificate of Incorporation, and Amendments thereto, previously filed as Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, are incorporated herein by reference.

3.2 Bylaws of Registrant as amended, previously filed as Exhibit 3.2 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1987, is incorporated herein by reference.

3.3 Amendment to the Company's Restated Certificate of Incorporation previously filed as Exhibit 3.1 to Registrant's Current Report on Form 8-K dated July 3, 2001 is incorporated herein by reference.

4.1 Indenture dated as of June 23, 2000 between Universal Health Services, Inc. and Bank One Trust Company, N.A., previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, is incorporated herein by reference.

4.2 Form of Indenture dated January 20, 2000, between Universal Health Services, Inc. and Bank One Trust Company, N.A., Trustee previously filed as Exhibit 4.1 to Registrant's Registration Statement on Form S-3/A (File No. 333-85781), dated February 1, 2000, is incorporated herein by reference.

4.3 Form of 6 3/4% Notes due 2011, previously filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated November 13, 2001, is incorporated herein by reference.

10.1 Amended and Restated Employment Agreement, dated as of November 14, 2001, by and between Universal Health Services, Inc. and Alan B. Miller.

10.2 Advisory Agreement, dated as of December 24, 1986, between Universal Health Realty Income Trust and UHS of Delaware, Inc., previously filed as Exhibit 10.2 to Registrant's Current Report on Form 8-K dated December 24, 1986, is incorporated herein by reference.

10.3 Agreement, effective January 1, 2003, to renew Advisory Agreement, dated as of December 24, 1986, between Universal Health Realty Income Trust and UHS of Delaware, Inc.

10.4 Form of Leases, including Form of Master Lease Document for Leases, between certain subsidiaries of the Registrant and Universal Health Realty Income Trust, filed as Exhibit 10.3 to Amendment No. 3 of the Registration Statement on Form S-11 and Form S-2 of Registrant and Universal Health Realty Income Trust (Registration No. 33-7872), is incorporated herein by reference.

10.5 Share Option Agreement, dated as of December 24, 1986, between Universal Health Realty Income Trust and Registrant, previously filed as Exhibit 10.4 to Registrant's Current Report on Form 8-K dated December 24, 1986, is incorporated herein by reference.

10.6 Corporate Guaranty of Obligations of Subsidiaries Pursuant to Leases and Contract of Acquisition, dated December 24, 1986, issued by Registrant in favor of Universal Health Realty Income Trust, previously filed as Exhibit 10.5 to Registrant's Current Report on Form 8-K dated December 24, 1986, is incorporated herein by reference.

10.7 Universal Health Services, Inc. Executive Retirement Income Plan dated January 1, 1993

10.8 Sale and Servicing Agreement dated as of November 16, 1993 between Certain Hospitals and UHS Receivables Corp., previously filed as Exhibit 10.16 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by reference.

10.9 Amendment No. 2 dated as of August 31, 1998, to Sale and Servicing Agreements dated as of various dates between each hospital company and UHS Receivables Corp., previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, is incorporated herein by reference.

10.10 Servicing Agreement dated as of November 16, 1993, among UHS Receivables Corp., UHS of Delaware, Inc. and Continental Bank, National Association, previously filed as Exhibit 10.17 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by reference.

10.11 Pooling Agreement dated as of November 16, 1993, among UHS Receivables Corp., Sheffield Receivables Corporation and Continental Bank, National Association, previously filed as Exhibit 10.18 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by reference.

10.12 Amendment No. 1 to the Pooling Agreement dated as of September 30, 1994, among UHS Receivables Corp., Sheffield Receivables Corporation and Bank of America Illinois (as successor to Continental Bank N.A.) as Trustee, previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994, is incorporated herein by reference.

10.13 Amendment No. 2, dated as of April 17, 1997 to Pooling Agreement dated as of November 16, 1993, among UHS Receivables Corp., a Delaware corporation, Sheffield Receivables Corporation, a Delaware corporation, and First Bank National Association, a national banking association, as trustee, previously filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 30, 1997, is incorporated herein by reference.

10.14 Form of Amendment No. 3, dated as of August 31, 1998, to Pooling Agreement dated as of November 16, 1993, among UHS Receivables Corp., Sheffield Receivables Corporation and U.S. Bank National Association (successor to First Bank National Association and Continental Bank, National Association) previously filed as Exhibit 10.17 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1998 is incorporated herein by reference.

10.15 Agreement, dated as of August 31, 1998, by and among each hospital company signatory hereto, UHS Receivables Corp., a Delaware Corporation, Sheffield Receivables Corporation and U.S. Bank National Association, as Trustee, previously filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, is incorporated herein by reference.

10.16 Guarantee dated as of November 16, 1993, by Universal Health Services, Inc. in favor of UHS Receivables Corp., previously filed as Exhibit 10.19 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by reference.

10.17 2002 Executive Incentive Plan.

10.18 Asset Purchase Agreement dated as of February 6, 1996, among Amarillo Hospital District, UHS of Amarillo, Inc. and Universal Health Services, Inc., previously filed as Exhibit 10.28 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995, is incorporated herein by reference.

10.19 Stock Purchase Plan, previously filed as Exhibit 10.27 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995, is incorporated herein by reference.

10.20 Agreement of Limited Partnership of District Hospital Partners, L.P. (a District of Columbia limited partnership) by and among UHS of D.C., Inc. and The George Washington University, previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarters ended March 30, 1997, and June 30, 1997, is incorporated herein by reference.

10.21 Contribution Agreement between The George Washington University (a congressionally chartered institution in the District of Columbia) and District Hospital Partners, L.P. (a District of Columbia limited partnership), previously filed as Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, is incorporated herein by reference.

10.22 Deferred Compensation Plan for Universal Health Services Board of Directors and Amendment thereto.

10.23 Valley/Desert Contribution Agreement dated January 30, 1998, by and among Valley Hospital Medical Center, Inc. and NC-DSH, Inc. previously filed as Exhibit 10.30 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1997, is incorporated herein by reference.

10.24 Summerlin Contribution Agreement dated January 30, 1998, by and among Summerlin Hospital Medical Center, L.P. and NC-DSH, Inc., previously filed as Exhibit 10.31 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1997, is incorporated herein by reference.

10.25 Amended and Restated 1992 Stock Option Plan, previously filed as Exhibit 10.33 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2000, is incorporated herein by reference.

10.26. Credit Agreement dated as of December 13, 2001 among Universal Health Services, Inc., its Eligible Subsidiaries, JPMorgan Chase Bank, Bank of America, N.A., First Union National Bank, Fleet National Bank, ABN Amro Bank N.V., Banco Popular de Puerto Rico, Sun Trust Bank, The Bank of New York, National City Bank of Kentucky, PNC Bank, JPMorgan Chase Bank, as Administrative Agent, Bank of America, N.A., as Syndication Agent and First Union National Bank and Fleet National Bank, as Co-Documentation Agents, filed as Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001 is incorporated herein by reference.

10.27. Employee's Restricted Stock Purchase Plan, previously filed as Exhibit 10.1 on Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001, is incorporated herein by reference.

10.28 Amendment No. 1 to the Universal Health Services, Inc. 2001 Employees' Restricted Stock Purchase Plan, previously filed as Exhibit 10.1 on Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, is incorporated herein by reference.

10.29 Amended and Restated Universal Health Services, Inc. Supplemental Deferred Compensation Plan dated as of January 1, 2002.

11. Statement re computation of per share earnings is set forth in Note 1 of the Notes to the Condensed Consolidated Financial Statements.

22. Subsidiaries of Registrant.

23.2 Information Regarding Consent of Arthur Andersen LLP

24.1 Independent Auditors' Consent - KPMG LLP

24.2 Consent of Independent Public Accountants - Arthur Andersen LLP

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.

Exhibits, other than those incorporated by reference, have been included in copies of this Report filed with the Securities and Exchange Commission. Stockholders of the Company will be provided with copies of those exhibits upon written request to the Company.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

/S/ ALAN B. MILLER

By: _____

Alan B. Miller
President

March 18, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/S/ ALAN B. MILLER **Alan B. Miller**	Chairman of the Board, President and Director (Principal Executive Officer)	March 18, 2003
/S/ ANTHONY PANTALEONI **Anthony Pantaleoni**	Director	March 18, 2003
/S/ ROBERT H. HOTZ **Robert H. Hotz**	Director	March 18, 2003
/S/ JOHN H. HERRELL **John H. Herrell**	Director	March 18, 2003
/S/ JOHN F. WILLIAMS, JR., M.D. **John F. Williams, Jr., M.D.**	Director	March 18, 2003
/S/ LEATRICE DUCAT **Leatrice Ducat**	Director	March 18, 2003
/S/ STEVE FILTON **Steve Filton**	Vice President, Chief Financial Officer, Chief Accounting Officer and Secretary	March 18, 2003

CERTIFICATION-Chief Executive Officer

I, Alan B. Miller, certify that:

1. I have reviewed this annual report on Form 10-K 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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 annual report (the "Evaluation Date"); and

c) presented in this annual 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 annual 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: March 18, 2003

/s/ Alan B. Miller

President and Chief Executive Officer

CERTIFICATION-Chief Financial Officer

I, Steve Filton, certify that:

1. I have reviewed this annual report on Form 10-K 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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 annual report (the "Evaluation Date"); and

c) presented in this annual 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 annual 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: March 18, 2003

/s/ Steve Filton

Vice President and Chief Financial Officer

UNIVERSAL HEALTH SERVICES, INC.

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AND FINANCIAL STATEMENT SCHEDULE

(ITEM 14(a))

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Universal Health Services, Inc.:

We have audited the 2002 financial statements of Universal Health Services, Inc. (a Delaware corporation) and subsidiaries as listed in the accompanying index. In connection with our audit of the 2002 financial statements, we have also audited the 2002 financial statement schedule as listed in the accompanying index. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit. The 2001 and 2000 financial statements and financial statement schedule of Universal Health Services, Inc. and subsidiaries as listed in the accompanying index were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements and financial statement schedule, before the revisions as described in Note 1 to the financial statements, in their report dated February 13, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2002 financial statements referred to above present fairly, in all material respects, the financial position of Universal Health Services, Inc. and subsidiaries as of December 31, 2002, and the results of their operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related 2002 financial statement schedule when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed above, the financial statements of Universal Health Services, Inc. and subsidiaries as of December 31, 2001, and for each of the years in the two-year period then ended, were audited by other auditors who have ceased operations. As described in Note 1, the financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which was adopted as of January 1, 2002. In our opinion, the disclosures for 2001 and 2000 in Note 1 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 financial statements of Universal Health Services, Inc. and subsidiaries other than with respect to such disclosures, and accordingly, we do not express an opinion or any other form of assurance on the 2001 and 2000 financial statements taken as a whole.

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 28, 2003

The following report is a copy of a previously issued Arthur Andersen LLP ("Andersen") report, and the report has not been reissued by Andersen. The Andersen report refers to the consolidated balance sheet as of December 31, 2000 and the consolidated statements of income, common stockholders' equity and cash flows for the year ended December 31, 1999, which are no longer included in the accompanying financial statements.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of Universal Health Services, Inc.:

We have audited the accompanying consolidated balance sheets of Universal Health Services, Inc. (a Delaware corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, common stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Universal Health Services, Inc. and subsidiaries as of December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Philadelphia, Pennsylvania
February 13, 2002

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31		
	2002	2001	2000
	(In thousands, except per share data)		
Net revenues	$ 3,258,898	$ 2,840,491	$ 2,242,444
Operating charges			
Salaries, wages and benefits	1,298,967	1,122,428	873,747
Other operating expenses	787,408	668,026	515,084
Supplies expense	425,142	368,091	301,663
Provision for doubtful accounts	231,362	240,025	192,625
Depreciation & amortization	124,794	127,523	112,809
Lease and rental expense	61,712	53,945	49,039
Interest expense, net	34,746	36,176	29,941
Provision for insurance settlements	—	40,000	—
Facility closure (recoveries)/costs	(2,182)	—	7,747
Losses on foreign exchange and derivative transactions	220	8,862	—
	2,962,169	2,665,076	2,082,655
Income before minority interests, income taxes and extraordinary charge	296,729	175,415	159,789
Minority interests in earnings of consolidated entities	19,658	17,518	13,681
Income before income taxes and extraordinary charge	277,071	157,897	146,108
Provision for income taxes	101,710	57,147	52,746
Net income before extraordinary charge	175,361	100,750	93,362
Extraordinary charge from early extinguishment of debt, net of taxes	—	1,008	—
Net income	$ 175,361	$ 99,742	$ 93,362
Earnings per Common Share before extraordinary charge:			
Basic	$ 2.94	$ 1.68	$ 1.55
Diluted	$ 2.74	$ 1.62	$ 1.50
Earnings per Common Share after extraordinary charge:			
Basic	$ 2.94	$ 1.67	$ 1.55
Diluted	$ 2.74	$ 1.60	$ 1.50
Weighted average number of common shares—basic	59,730	59,874	60,220
Weighted average number of common share equivalents	7,345	7,346	4,600
Weighted average number of common shares and equivalents—diluted	67,075	67,220	64,820

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2002	December 31, 2001
	(Dollar amounts in thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 17,750	$ 22,848
Accounts receivable, net	474,763	418,083
Supplies	58,217	54,764
Deferred income taxes	25,023	25,227
Other current assets	30,823	27,340
Total current assets	606,576	548,262
Property and Equipment		
Land	154,804	149,208
Buildings and improvements	978,655	845,523
Equipment	586,096	505,310
Property under capital lease	42,346	31,902
	1,761,901	1,531,943
Accumulated depreciation	(687,430)	(594,602)
	1,074,471	937,341
Funds restricted for construction	—	196
Construction-in-progress	92,816	93,668
	1,167,287	1,031,205
Other assets		
Goodwill	410,320	372,627
Deferred charges	14,390	16,533
Other	124,656	199,962
	549,366	589,122
	$ 2,323,229	$ 2,168,589
LIABILITIES AND COMMON STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt	$ 8,253	$ 2,436
Accounts payable	170,471	144,163
Accrued liabilities		
Compensation and related benefits	82,900	58,607
Interest	3,690	3,050
Taxes other than income	25,068	26,525
Other	67,969	87,050
Federal and state taxes	12,062	885
Total current liabilities	370,413	322,716
Other Noncurrent Liabilities	206,238	164,390
Minority Interests	134,339	125,914
Long-Term Debt	680,514	718,830
Deferred Income Taxes	14,266	28,839
Commitments and Contingencies		
Common Stockholders' Equity		
Class A Common Stock, voting, $.01 par value; authorized 12,000,000 shares; issued and outstanding 3,328,404 shares in 2002 and 3,848,886 in 2001	33	38
Class B Common Stock, limited voting, $.01 par value; authorized 150,000,000 shares; issued and outstanding 55,341,350 shares in 2002 and 55,603,686 in 2001	553	556
Class C Common Stock, voting, $.01 par value; authorized 1,200,000 shares; issued and outstanding 335,800 shares in 2002 and 387,848 in 2001	3	4
Class D Common Stock, limited voting, $.01 par value; authorized 5,000,000 shares; issued and outstanding 35,506 shares in 2002 and 39,109 in 2001	—	—
Capital in excess of par value, net of deferred compensation of $14,247 in 2002 and $203 in 2001	84,135	137,400
Retained earnings	851,425	676,064
Accumulated other comprehensive loss	(18,690)	(6,162)
	917,459	807,900
	$ 2,323,229	$ 2,168,589

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2002, 2001, and 2000

	Class A Common	Class B Common	Class C Common	Class D Common	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
				(Amounts in thousands)				
Balance January 1, 2000	$ 20	$ 284	$ 2	—	$158,345	$482,960	—	$641,611
Common Stock								
Issued/(converted)	(1)	6	—	—	16,629	—	—	16,634
Repurchased	—	(12)	—	—	(35,973)	—	—	(35,985)
Amortization of deferred compensation	—	—	—	—	952	—	—	952
Net income	—	—	—	—	—	93,362	—	93,362
Balance January 1, 2001	19	278	2	—	139,953	576,322	—	716,574
Common Stock								
Issued	—	1	—	—	4,844	—	—	4,845
Stock dividend	19	278	2	—	(299)	—	—	—
Repurchased	—	(1)	—	—	(7,733)	—	—	(7,734)
Amortization of deferred compensation	—	—	—	—	635	—	—	635
Comprehensive income:								
Net income	—	—	—	—	—	99,742	—	99,742
Foreign currency translation adjustments	—	—	—	—	—	—	161	161
Cumulative effect of change in accounting principle (SFAS No. 133) on other comprehensive income (net of income tax effect of $2,801)	—	—	—	—	—	—	(4,779)	(4,779)
Adjustment for settlement amounts reclassified into income (net of income tax effect of $1,727)	—	—	—	—	—	—	2,947	2,947
Unrealized derivative losses on cash flow hedges (net of income tax effect of $2,632)	—	—	—	—	—	—	(4,491)	(4,491)
Subtotal—comprehensive income	—	—	—	—	—	99,742	(6,162)	93,580
Balance January 1, 2002	38	556	4	—	137,400	676,064	(6,162)	807,900
Common Stock								
Issued/(converted)	(5)	14	(1)	—	6,558	—	—	6,566
Repurchased	—	(17)	—	—	(76,598)	—	—	(76,615)
Amortization of deferred compensation	—	—	—	—	15,396	—	—	15,396
Stock option expense	—	—	—	—	1,379	—	—	1,379
Comprehensive income:								
Net income	—	—	—	—	—	175,361	—	175,361
Foreign currency translation adjustments	—	—	—	—	—	—	(719)	(719)
Adjustment for settlement amounts reclassified into income (net of income tax effect of $2,387)	—	—	—	—	—	—	4,073	4,073
Unrealized derivative losses on cash flow hedges (net of income tax effect of $4,783)	—	—	—	—	—	—	(8,161)	(8,161)
Minimum pension liability (net of income tax effect of $4,525)	—	—	—	—	—	—	(7,721)	(7,721)
Subtotal—comprehensive income	—	—	—	—	—	175,361	(12,528)	162,833
Balance December 31, 2002	$ 33	$ 553	$ 3	—	$ 84,135	$851,425	$ (18,690)	$917,459

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31		
	2002	2001	2000
	(Amounts in thousands)		
Cash Flows from Operating Activities:			
Net income	$ 175,361	$ 99,742	$ 93,362
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	124,794	127,523	112,809
Accretion of discount on convertible debentures	10,903	10,323	5,239
Losses on foreign exchange, derivative transactions & debt extinguishment	220	10,460	—
Provision for insurance settlements and other non-cash charges	—	40,000	7,747
Changes in assets and liabilities, net of effect from acquisitions and dispositions:			
Accounts receivable	(34,987)	1,384	(29,391)
Accrued interest	640	(1,914)	(1,020)
Accrued and deferred income taxes	7,347	(9,292)	28,489
Other working capital accounts	23,679	13,913	1,408
Other assets and deferred charges	(5,113)	10,689	(17,237)
Increase in working capital at acquired facilities	—	(9,133)	(24,155)
Other	(6,192)	(7,304)	(6,209)
Minority interests in earnings of consolidated entities, net of distributions	7,425	2,874	6,048
Accrued insurance expense, net of commercial premiums paid	58,316	23,531	9,012
Payments made in settlement of self-insurance claims	(31,134)	(15,253)	(11,281)
Net cash provided by operating activities	331,259	297,543	174,821
Cash Flows from Investing Activities:			
Property and equipment additions, net	(200,930)	(152,938)	(113,900)
Acquisition of businesses	(3,000)	(263,463)	(141,333)
Proceeds received from merger, sale or disposition of assets	8,369	—	16,253
Investment in business	—	—	(12,273)
Net cash used in investing activities	(195,561)	(416,401)	(251,253)
Cash Flows from Financing Activities:			
Additional borrowings, net of financing costs	39,311	280,499	252,566
Reduction of long-term debt	(106,439)	(137,005)	(141,045)
Net cash paid related to termination of interest rate swap, foreign currency and early extinguishment of debt	—	(6,608)	—
Issuance of common stock	2,947	2,009	5,260
Repurchase of common shares	(76,615)	(7,734)	(35,985)
Net cash (used in) provided by financing activities	(140,796)	131,161	80,796
(Decrease) Increase in Cash and Cash Equivalents	(5,098)	12,303	4,364
Cash and Cash Equivalents, Beginning of Period	22,848	10,545	6,181
Cash and Cash Equivalents, End of Period	$ 17,750	$ 22,848	$ 10,545
Supplemental Disclosures of Cash Flow Information:			
Interest paid	$ 23,203	$ 27,767	$ 25,722
Income taxes paid, net of refunds	$ 94,412	$ 64,492	$ 24,284

Supplemental Disclosures of Noncash Investing and Financing Activities:
See Notes 2 and 7

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 the managing general partner. The Company's France subsidiary is included on the basis of the year ending November 30th. All significant intercompany accounts and transactions have been eliminated. The more significant accounting policies follow:

Nature of Operations: The principal business of the Company is owning and operating, through its subsidiaries, acute care hospitals, behavioral health centers, ambulatory surgery centers and radiation oncology centers. At December 31, 2002, the Company operated 34 acute care hospitals and 38 behavioral health centers located in 22 states, Washington, DC, Puerto Rico and France. The Company, as part of its ambulatory treatment centers division owns outright, or in partnership with physicians, and operates or manages 24 surgery and radiation oncology centers located in 12 states and Puerto Rico.

Services provided by the Company's hospitals include general surgery, internal medicine, obstetrics, emergency room care, radiology, diagnostic care, coronary care, pediatric services and behavioral health services. The Company provides capital resources as well as a variety of management services to its facilities, including central purchasing, information services, finance and control systems, facilities planning, physician recruitment services, administrative personnel management, marketing and public relations.

Net revenues from the Company's acute care hospitals and ambulatory and outpatient treatment centers accounted for 82%, 81% and 84% of consolidated net revenues in 2002, 2001 and 2000, respectively. Net revenues from the Company's behavioral health care facilities accounted for 17%, 19% and 16%, of consolidated net revenues in 2002, 2001 and 2000, respectively.

Revenue Recognition: Revenue and the related receivables for health care services are recorded in the accounting records, at the time the services are rendered, on an accrual basis at the Company's established charges. The provision for contractual adjustments, which represents the difference between established charges and estimated third-party payor payments, is also recognized on an accrual basis and deducted from gross revenue to determine net revenues. Payment arrangements with third-party payors may include prospectively determined rates per discharge, a discount from established charges, per-diem payments and reimbursed costs. Estimates of contractual adjustments are reported in the period during which the services are provided and adjusted in future periods, as the actual amounts become known. Revenues recorded under cost-based reimbursement programs may be adjusted in future periods as a result of audits, reviews or investigations. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. Medicare and Medicaid net revenues represented 42%, 42% and 44% of net patient revenues for the years 2002, 2001 and 2000, respectively. In addition, approximately 39% in 2002, 37% in 2001, 35% in 2000, of the Company's net patient revenues were generated from managed care companies, which includes health maintenance organizations and preferred provider organizations.

The Company establishes an allowance for doubtful accounts to reduce its receivables to their net realizable value. The allowances are estimated by management based on general factors such as payor mix, the agings of the receivables and historical collection experience. At December 31, 2002 and 2001, accounts receivable are recorded net of allowance for doubtful accounts of $59.1 million and $61.1 million, respectively.

The Company provides care to patients who meet certain financial or economic criteria without charge or at amounts substantially less than its established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, they are not reported in net revenues or in provision for doubtful accounts.

Concentration of Revenues: The three majority-owned facilities operating in the Las Vegas market contributed on a combined basis 15% of the Company's 2002 consolidated net revenues. The two facilities located in the McAllen/Edinburg, Texas market contributed, on a combined basis, 11% of the Company's 2002 consolidated net revenues.

Cash and Cash Equivalents: The Company considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents. Interest expense in the consolidated statements of income is net of interest income of approximately $600,000 in 2002, $1.9 million in 2001 and $2.7 million in 2000.

Property and Equipment: Property and equipment are stated at cost. Expenditures for renewals and improvements are charged to the property accounts. Replacements, maintenance and repairs which do not improve or extend the life of the respective asset are expensed as incurred. The Company removes the cost and the related accumulated depreciation from the accounts for assets sold or retired and the resulting gains or losses are included in the results of operations.

The Company capitalizes interest expense on major construction projects while in process. The Company capitalized $4.6 million, $3.0 million and $453,000 of interest related to major construction in projects in 2002, 2001 and 2000, respectively.

Depreciation is provided on the straight-line method over the estimated useful lives of buildings and improvements (twenty to forty years) and equipment (three to fifteen years). Depreciation expense was $113.7 million, $96.1 million and $86.8 million in 2002, 2001 and 2000, respectively.

Long-Lived Assets: Effective January 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The Statement does not change the fundamental provisions of SFAS No. 121; however, it resolves various implementation issues of SFAS No. 121 and establishes a single accounting model for long-lived assets to be disposed of by sale. It retains the requirement of Opinion No. 30 to report separately discontinued operations, and extends that reporting for all periods presented to a component of an entity that, subsequent to or on January 1, 2002, either has been disposed of or is classified as held for sale. Additionally, SFAS No. 144 requires that assets and liabilities of components held for sale, if material, be disclosed separately in the balance sheet.

If events or circumstances indicate that the carrying value of a long-lived asset to be held and used may be impaired, management estimates the undiscounted future cash flows to be generated from the asset. If the analysis indicates that the carrying value is not recoverable from future cash flows, the asset is written down to its estimated fair value and an impairment loss is recognized. Fair values are determined based on estimated future cash flows using appropriate discount rates.

Goodwill: The Company adopted SFAS No. 142 on January 1, 2002, and accordingly, ceased amortizing goodwill as of that date. As required by SFAS No. 142, the Company performed an impairment test on goodwill as of January 1, 2002, which indicated no impairment of goodwill. Management has designated September 1st as the Company's annual impairment assessment date and performed its impairment assessment as of September 1, 2002, which indicated no impairment of goodwill.

The following table sets forth the computation of basic and diluted earnings per share on a pro-forma basis assuming that SFAS No. 142 was adopted on January 1, 2000:

	Twelve Months Ended December 31,		
	2002	2001	2000
	(in thousands, except per share data)		
Reported net income	$ 175,361	$ 99,742	$ 93,362
Add back: goodwill amortization, net of tax of $9.1 million and $7.2 million in 2001 and 2000, respectively	—	15,600	12,300
Adjusted net income	$ 175,361	$ 115,342	$ 105,662
Basic earnings per share:			
Reported net income	$ 2.94	$ 1.67	$ 1.55
Goodwill amortization	—	0.26	0.20
Adjusted net income	$ 2.94	$ 1.93	$ 1.75
Diluted earnings per share:			
Reported net income	$ 2.74	$ 1.60	$ 1.50
Goodwill amortization	—	0.24	0.19
Adjusted net income	$ 2.74	$ 1.84	$ 1.69

For the year ended December 31, 2001, adjusted income before extraordinary charge would have been $116,350, adjusted income before extraordinary charge per basic share would have been $1.94 and adjusted income before extraordinary charge per diluted share would have been $1.85.

Changes in the carrying amount of goodwill for the year ended December 31, 2002 were as follows (in thousands):

	Acute Care Services	Behavioral Health Services	Other	Total Consolidated
Balance, January 1, 2002	$ 277,692	$ 54,122	$40,813	$ 372,627
Goodwill acquired during the period	30,246	328	3,022	33,596
Adjustments to goodwill (A)	—	—	4,097	4,097
Balance, December 31, 2002	$ 307,938	$ 54,450	$47,932	$ 410,320

(A) Consists of the foreign currency translation adjustment on goodwill recorded in connection with the Company's acquisition of an 80% ownership interest in an operating company that owns nine acute care facilities in France.

Other Assets: During 1994, the Company established an employee life insurance program covering approximately 2,200 employees. The cash surrender value of the policies ($15.8 million at December 31, 2002 and $15.9 million at December 31, 2001) was recorded net of related loans ($15.7 million at December 31, 2002 and $15.8 million at December 31, 2001) and is included in other assets.

Included in other assets are estimates of expected recoveries from various state guaranty funds in connection with PHICO related professional and general liability claims payments amounting to $37.0 million and $54.0 million at December 31, 2002 and December 31, 2001, respectively. Actual recoveries may vary from these estimates due to the inherent uncertainties involved in making such estimates (See Note 8). Other assets at December 31, 2001 also include $70 million of deposits on acquisitions, which were consummated on January 1, 2002.

As of December 31, 2002 and 2001, other intangible assets, net of accumulated amortization, were not material.

Self-Insured Risks: The Company provides for self-insured risks, primarily general and professional liability claims and workers' compensation claims, based on estimates of the ultimate costs for both reported claims and claims incurred by not reported.

The ultimate costs of such claims, which include costs associated with litigating or settling claims, are accrued when the incidents that give rise to the claims occur. Estimated losses from asserted and unasserted claims are accrued, based on Management's estimates of the ultimate costs of the claims and the relationship of past reported incidents to eventual claims payments. All relevant information, including the Company's own historical experience, the nature and extent of existing asserted claims, and reported incidents, and independent actuarial analyses of this information, is used in estimating the expected amount of claims. The accrual also includes an estimate of the losses that will result from unreported incidents, which are probable of having occurred before the end of the reporting period.

In addition, the Company also maintains self-insured employee benefits programs for healthcare and dental claims. The ultimate costs related to these programs includes expenses for claims incurred and paid in addition to an accrual for the estimated expenses incurred in connection with claims incurred but not yet reported.

Estimated losses are reviewed and changed, if necessary, at each reporting date. The amounts of the changes are recognized currently as additional expense or as a reduction of expense.

Income Taxes: Deferred taxes are recognized for the amount of taxes payable or deductible in future years as a result of differences between the tax bases of assets and liabilities and their reported amounts in the financial statements.

Other Noncurrent 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: As of December 31, 2002 and 2001, the $134.3 million and $126.0 million, respectively, 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 interest in an acute care facility located in Washington, DC and a 20% outside ownership interest in an operating company that owns nine hospitals in France.

Comprehensive Income: Comprehensive income or loss is recorded in accordance with the provisions of SFAS No.130, "Reporting Comprehensive Income". SFAS No.130 establishes standards for reporting comprehensive income and its components in financial statements. Comprehensive income (loss), is comprised of net income, changes in unrealized gains or losses on derivative financial instruments, foreign currency translation adjustments and the minimum pension liability.

Accounting for Derivative Financial Investments and Hedging Activities: The Company manages its ratio of fixed to floating rate debt with the objective of achieving a mix that management believes is appropriate. To manage this risk in a cost-effective manner, the Company, from time to time, enters into interest rate swap agreements, in which it agrees to exchange various combinations of fixed and/or variable interest rates based on agreed upon notional amounts.

Effective January 1, 2001, the Company began accounting for its derivative and hedging activities using SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which requires all derivative instruments, including certain derivative instruments embedded in other contracts, to be carried at fair value on the balance sheet. For derivative transactions designated as hedges, the Company formally documents all relationships between the hedging instrument and the related hedged item, as well as its risk-management objective and strategy for undertaking each hedge transaction.

Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Cash flow hedges are accounted for by recording the fair value of the derivative instrument on the balance sheet as either an asset

or liability, with a corresponding amount recorded in accumulated other comprehensive income ("AOCI") within shareholders' equity. Amounts are reclassified from AOCI to the income statement in the period or periods the hedged transaction affects earnings.

The Company uses interest rate swaps in its cash flow hedge transactions. The interest rate swaps are designed to be highly effective in offsetting changes in the cash flows related to the hedged liability. For derivative instruments designated as cash flow hedges, the ineffective portion of the change in expected cash flows of the hedged item are recognized currently in the income statement.

Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges under SFAS 133. Fair value hedges are accounted for by recording the changes in the fair value of both the derivative instrument and the hedged item in the income statement.

For hedge transactions that do not qualify for the short-cut method, at the hedge's inception and on a regular basis thereafter, a formal assessment is performed to determine whether changes in the fair values or cash flows of the derivative instruments have been highly effective in offsetting changes in cash flows of the hedged items and whether they are expected to be highly effective in the future.

Foreign Currency: One of the Company's subsidiaries operates in France, whose currency is denominated in Euros. The French subsidiary translates its assets and liabilities into U.S. dollars at the current exchange rates in effect at the end of the fiscal period. Any resulting gains or losses are recorded in accumulated other comprehensive income (loss) in the accompanying balance sheet.

The revenue and expense accounts of the France subsidiary are translated into U.S. dollars at the average exchange rate that prevailed during the period. Therefore, the U.S. dollar value of the French subsidiary's operating results may fluctuate from period to period due to changes in exchange rates.

Stock-Based Compensation: At December 31, 2002, the Company has a number of stock-based employee compensation plans, which are more fully described in Note 5. The Company accounts for these plans 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.

	Twelve Months Ended December 31,		
	2002	2001	2000
	(in thousands, except per share data)		
Net income	$ 175,361	$ 99,742	$ 93,362
Add: total stock-based compensation expenses included in net income, net of tax of $6.3 million, $249 and $104 in 2002, 2001 and 2000, respectively	10,691	425	178
Deduct: total stock-based employee compensation expenses determined under fair value based methods for all awards, net of tax of $11.0 million, $5.1 million and $2.0 million in 2002, 2001 and 2000, respectively	(18,894)	(8,725)	(3,341)
Pro forma net income	$ 167,158	$ 91,442	$ 90,199
Basic earnings per share, as reported	$ 2.94	$ 1.67	$ 1.55
Basic earnings per share, pro forma	$ 2.80	$ 1.53	$ 1.50
Diluted earnings per share, as reported	$ 2.74	$ 1.60	$ 1.50
Diluted earnings per share, pro forma	$ 2.62	$ 1.48	$ 1.45

For the year ended December 31, 2001, net income before extraordinary charge would have been $100,750, earnings per basic share before extraordinary charge would have been $1.68 on an as reported basis and $1.54 on a proforma basis and earnings per diluted share before extraordinary charge would have been $1.62 on an as reported basis and $1.50 on a proforma basis.

Earnings per Share: 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.

The following table sets forth the computation of basic and diluted earnings per share, after the $1.0 million after-tax extraordinary charge recorded in 2001 (effect on basic and diluted earnings per share of $0.01 and $0.02, respectively), for the periods indicated:

	Twelve Months Ended December 31,		
	2002	2001	2000
	(in thousands, except per share data)		
Basic:			
Net income	$ 175,361	$ 99,742	$ 93,362
Weighted average number of common shares	59,730	59,874	60,220
Earnings per common share-basic	$ 2.94	$ 1.67	$ 1.55
Diluted:			
Net income	$ 175,361	$ 99,742	$ 93,362
Add discounted convertible debenture interest, net of income tax effect	8,451	8,120	4,092
Adjusted net income	$ 183,812	$ 107,862	$ 97,454
Weighted average number of common shares	59,730	59,874	60,220
Net effect of dilutive stock options and grants based on the treasury stock method	768	769	1,096
Assumed conversion of discounted convertible debentures	6,577	6,577	3,504
Weighted average number of common shares and equivalents	67,075	67,220	64,820
Earnings per common share-diluted	$ 2.74	$ 1.60	$ 1.50

For the year ended December 31, 2001, net income before extraordinary charge would have been $100,750, earnings per basic share before extraordinary charge would have been $1.68 and earnings per diluted share before extraordinary charge would have been $1.62.

Fair Value of Financial Instruments: The fair values of the Company's registered debt, interest rate swap agreements and investments are based on quoted market prices. The fair values of other long-term debt, including capital lease obligations, are estimated by discounting cash flows using period-end interest rates and market conditions for instruments with similar maturities and credit quality. The carrying amounts reported in the balance sheet for cash, accounts receivable, accounts payable, and short-term borrowings approximates their fair values due to the short-term nature of these instruments. Accordingly, these items have been excluded from the fair value disclosures included elsewhere in these notes to consolidated financial statements.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain prior period amounts have been reclassified to conform to the current period presentation.

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. The Statement is effective January 1, 2003 for the Company, with earlier adoption permitted. Management does not believe that this Statement will 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 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 item shall be reclassified. This provision will be effective for the Company beginning January 1, 2003. Except for the possible reclassification of the extraordinary charge on early extinguishment of debt recorded in 2001, Management does not believe that this Statement will 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, with earlier application encouraged. Management does not believe that this Statement will 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. For guarantees entered into prior to December 31, 2002, the interpretation requires certain information related to the guarantees be disclosed in the guarantor’s financial statements. The disclosure requirements of this interpretation are effective for the year ended December 31, 2002 and are included in the notes to the consolidated 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 disclosures 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.

In January 2003, the FASB issued 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 December 31, 2002, the Company does not have any unconsolidated variable interest entities.

2) ACQUISITIONS AND DIVESTITURES

2003 — Subsequent to December 31, 2002, the Company spent $39.9 million to acquire the assets and operations of: (i) a 108-bed behavioral health system in Anchorage, Alaska, and; (ii) two hospitals located in France that were purchased by an operating company which is 80% owned by the Company.

2002 — During 2002, the Company spent $3 million to acquire a majority ownership interest in the assets and operations of a surgery center located in Puerto Rico. In addition, effective January 1, 2002, the Company acquired the assets and operations of: (i) a 150-bed acute care facility located in Lansdale, Pennsylvania, and; (ii) a 117-bed acute care facility located in Lancaster, California. Included in other assets at December 31, 2001 were $70 million of deposits related to the acquisition of these two facilities.

The aggregate net purchase price of the facilities was allocated on a preliminary basis to assets and liabilities based on their estimated fair values as follows:

	Amount (000s)
Working capital, net	$ 14,000
Property and equipment	32,000
Goodwill	34,000
Debt	(3,000)
Other liabilities	(4,000)
Total cash purchase price	73,000
Less: cash deposits made in 2001	(70,000)
Cash paid for acquisitions in 2002	$ 3,000

The pro forma effect of these acquisitions on the Company's net revenues, net income and basic and diluted earnings per share for the year ended December 31, 2002 and 2001 were immaterial. During 2002, the Company received net proceeds of $8.4 million resulting from the sale of real estate related to a women's hospital and a radiation oncology center, both of which were closed in a prior year and written down to their estimated net realizable values. The sale of the real estate of the women's hospital resulted in a $2.2 million gain. The gain on the sale of the radiation center did not have a material effect on the Company's financial statements.

2001 — During 2001, the Company spent $263 million to acquire the assets and operations of: (i) a 108-bed behavioral health care facility located in San Juan Capestrano, Puerto Rico; (ii) a 96-bed acute care facility located in Murrieta, California; (iii) two behavioral health care facilities located in Boston, Massachusetts; (iv) a 60-bed specialty heart hospital located in McAllen, Texas; (v) an 80% ownership interest in an operating company that owns nine hospitals located in France; (vi) two ambulatory surgery centers located in Nevada and Louisiana; (vii) a 150-bed acute care facility located in Lansdale, Pennsylvania (ownership effective January 1, 2002), and; (viii) a 117-bed acute care facility located in Lancaster, California (ownership effective January 1, 2002).

The aggregate net purchase price of the facilities was allocated on a preliminary basis to assets and liabilities based on their estimated fair values as follows:

	Amount (000s)
Working capital, net	$ 5,000
Property, plant & equipment	95,000
Goodwill	87,000
Other assets	22,000
Debt	(9,000)
Other liabilities	(7,000)
Cash purchase price for 2001 acquisitions	193,000
Cash deposits made for 2002 acquisitions	70,000
Cash paid for acquisitions in 2001	$ 263,000

The increase of $9 million in other working capital accounts at acquired facilities from their date of acquisition through December 31, 2001 consisted of the following:

	Amount (000s)
Accounts receivable	$ 19,000
Other working capital accounts	(2,000)
Other	(8,000)
Total working capital changes	$ 9,000

The pro forma effect of these acquisitions on the Company's net revenues, net income and basic and diluted earnings per share for the year ended December 31, 2001, was immaterial, as the majority of the acquisitions occurred early in 2001. Assuming the 2001 acquisitions had been completed as of January 1, 2000, the unaudited pro forma net revenues and net income for the year ended December 31, 2000 would have been approximately $2.4 billion and $100.7 million, respectively, and the unaudited pro forma basic and diluted earnings per share would have been $1.67 and $1.62, respectively.

2000 — During 2000, the Company spent $141 million to acquire the assets and operations of: (i) a 277-bed acute care facility located in Enid, Oklahoma; (ii) 12 behavioral health care facilities located in Pennsylvania, Delaware, Georgia, Kentucky, South Carolina, Tennessee, Mississippi, Utah and Texas; (iii) a 77-bed acute care facility located in Eagle Pass, Texas, and; (iv) the operations of a behavioral health care facility in Texas. In connection with the acquisition of the facility in Eagle Pass, Texas, the Company agreed to construct a new 100-bed facility scheduled to be completed and opened by the fourth quarter of 2006.

The aggregate net purchase price of the facilities was allocated on a preliminary basis to assets and liabilities based on their estimated fair values as follows:

	Amount (000s)
Working capital, net	$ 5,000
Property, plant & equipment	77,000
Goodwill	58,000
Other assets	1,000
Cash paid for acquisitions in 2000	$ 141,000

The increases of $24.2 million in other working capital accounts at acquired facilities from their date of acquisition through December 31, 2000 consisted of the following:

	Amount (000s)
Accounts receivable	$ 36,800
Other working capital accounts	(7,700)
Other	(4,900)
Total working capital changes	$ 24,200

Assuming the 2000 acquisitions had been completed as of January 1, 2000, the unaudited pro forma net revenues and net income for the year ended December 31, 2000 would have been approximately $2.4 billion and $100.4 million, respectively and the unaudited pro forma basic and diluted earnings per share would have been $1.67 and $1.62, respectively.

During 2000, the Company sold the real property of a behavioral health care facility located in Florida and its ownership interests in a women's hospital and two physician practices located in Oklahoma for net proceeds of approximately $5.5 million. In addition, the Company sold a medical office building located in Nevada to a limited liability company that is majority owned by Universal Health Realty Income Trust (see Note 9). The net gain/loss from these transactions was not material.

The goodwill acquired during the last three years as presented above, is expected to be fully deductible for income tax purposes.

3) FINANCIAL INSTRUMENTS

Fair Value Hedges: The Company has two floating rate swaps having a 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. As of December 31, 2002, the average floating rate on these swaps was 2.68%. During 2002 the Company recorded an increase of $8.0 million in other assets to recognize the fair value of these swaps and an $8.0 million increase in long term debt to recognize the difference between the carrying value and fair value of the related hedged liability.

Upon the adoption of SFAS No. 133 on January 1, 2001, the Company recorded an adjustment to increase other assets and long-term debt by $3.3 million to recognize the fair value of an interest rate swap that was designated as a fair-value hedge and to recognize the difference between the carrying value and fair value of the related hedged liability. During the third quarter of 2001, the counter-party to this interest rate swap, which had a notional principal amount of $135 million, elected to terminate the interest rate swap. This swap had been designated as a fair value hedge of the Company's $135 million 8.75% Senior Notes that were redeemed in October, 2001. The termination resulted in a net payment to the Company of approximately $3.8 million. Upon the termination of the fair value hedge, the Company ceased adjusting the fair value of the debt. The effective interest method was used to amortize the resulting difference between the fair value at termination and the face amount of the debt through the maturity date of the Senior Notes. In connection with the redemption of the Senior Notes in the fourth quarter of 2001, the Company recorded a pre-tax loss on debt extinguishment of $1.6 million.

Cash Flow Hedges: As of December 31, 2002, 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 December 31, 2002, the floating rate of this interest rate swap was 1.40%.

As of December 31, 2002, a majority-owned subsidiary of the Company had two interest rate swaps denominated in Euros. These two interest rate swaps are for a total notional amount of 41.2 million Euros ($40.9 million based on the end of period currency exchange rate). The notional amount decreases to 35.0 million Euros ($34.8 million) on December 30, 2003, 27.5 million Euros, ($27.3 million) on December 30, 2004 and the swaps mature 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 December 31, 2002 was 2.87%.

During the year ended December 31, 2002, the Company recorded in accumulated other comprehensive income ("AOCI"), pre-tax losses of $6.4 million ($4.1 million after-tax) 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 December 31, 2002, it is expected that $7.2 million of pre-tax net losses in accumulated OCI will be reclassified into earnings within the next twelve months. During the year ended December 31, 2002, the Company also recorded a charge to earnings of $169,000 ($107,000 after-tax) during the year to recognize the ineffective portion of its cash flow hedging instruments. As of December 31, 2002, 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.

Upon the adoption of SFAS No. 133 on January 1, 2001, the Company recorded the cumulative effect of an accounting change of approximately $7.6 million ($4.8 million after-tax) in accumulated other comprehensive income (loss) to recognize the fair value all derivatives that were designated as cash flow hedging instruments. During the year ended December 31, 2001, the Company recorded, in AOCI, a pre-tax charge of $2.4 million ($1.5 million after-tax) to recognize the change in fair value of all derivatives that were designated as cash flow hedging instruments. During the year ended December 31, 2001, the Company also recorded a charge to earnings of approximately $300,000 ($200,000 after-tax) to recognize the ineffective portion of its cash flow hedging instruments.

The Company had a fixed rate swap having a notional principal amount of $135 million whereby the Company paid a fixed rate of 6.76% and received a floating rate from the counter-party. During 2001, the notional amount of this swap was reduced to $125 million. The Company had two interest rate swaps to fix the rate of interest on a total notional principal amount of $75 million with a scheduled maturity date of August, 2005 that were terminated in November, 2001. The average fixed rate on the $75 million of interest rate swaps, included the Company's borrowing spread of .35%, was 7.05%. The total cost of all swaps terminated in 2001 was $7.4 million. This amount was reclassified from accumulated other comprehensive loss due to the probability of the original forecasted interest payments not occurring.

Foreign Currency Risk: In connection with the Company's purchase of a 80% ownership interest in an operating company that owns hospitals in France in the first quarter of 2001, the Company extended an intercompany loan denominated in francs. During the first quarter of 2001, the Company recorded a $1.3 million pre-tax loss ($800,000 after-tax), resulting from foreign exchange fluctuations related to this intercompany loan. During the second quarter of 2001, the Company entered into certain forward exchange contracts to hedge the exposure associated with foreign currency fluctuations on the intercompany loan. These contracts, which are now expired, were not designated as hedging instruments and changes in the fair value of these items were recorded in earnings to offset the foreign exchange gains and losses of the intercompany loan. The effect of the change in fair value of the contract for the year ended December 31, 2001 was a loss of $200,000 which offset a $200,000 exchange gain on the intercompany loan.

4) LONG-TERM DEBT

A summary of long-term debt follows:

	December 31,	
	2002	2001
	(000s)	
Long-term debt:		
Notes payable and Mortgages payable (including obligations under capitalized leases of $17,921 in 2002 and $11,919 in 2001) and term loans with varying maturities through 2006; weighted average interest at 6.2% in 2002 and 6.8% in 2001 (see Note 7 regarding capitalized leases)	$ 65,677	$ 18,061
Revolving credit and demand notes	30,000	121,000
Commercial paper	100,000	100,000
Revenue bonds:		
Interest at floating rates of 1.55% at December 31, 2002 with varying maturities through 2015	10,200	18,200
5.00% Convertible Debentures due 2020, net of the unamortized discount of $310,527 in 2002 and $321,430 in 2001	276,465	265,562
6.75% Senior Notes due 2011, net of the unamortized discount of $92 in 2002 and $102 in 2001, and fair market value debt adjustment of $6,517 in 2002 and ($1,455) in 2001	206,425	198,443
	688,767	721,266
Less-Amounts due within one year	8,253	2,436
	$ 680,514	$ 718,830

The Company has a $400 million unsecured non-amortizing revolving credit agreement, which expires on December 13, 2006. The agreement includes a $50 million sublimit for letters of credit of which $29 million was available at December 31, 2002. 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%, Euro-dollar plus .80% to 1.150% 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. At December 31, 2002, 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. At December 31, 2002, the Company had $349 million of unused borrowing capacity available under the revolving credit agreement.

During 2002, a majority-owned subsidiary of the Company entered into a senior credit agreement denominated in Euros amounting to 45.8 million Euros ($44.9 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 and six month EURIBOR plus a spread of 2.5%. As of December 31, 2002, the interest rate was 5.4% and the effective interest rate including the effects of the designated interest rate swaps was 6.9%.

The Company also has a $100 million commercial paper credit facility. The majority of the Company's acute care patient accounts receivable 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. As of December 31, 2002, the Company had no unused borrowing capacity under the terms of the commercial paper facility.

During 2001, the Company issued $200 million of Senior Notes which have a 6.75% coupon rate and which mature on November 15, 2011. ("Notes"). The interest on the Notes is paid semiannually in arrears on May 15 and November 15 of each year. The notes can be redeemed in whole at any time and in part from time to time.

The Company issued discounted Convertible Debentures in 2000 which are due in 2020 ("Debentures"). The aggregate issue price of the Debentures was $250 million or $587 million aggregate principal amount at maturity. The Debentures were issued at a price of $425.90 per $1,000 principal amount of Debenture. The Debentures' yield to maturity is 5% per annum, .426% of which is cash interest. The interest on the bonds is paid semiannually in arrears on June 23 and December 23 of each year. The Debentures are convertible at the option of the holders into 5.6024 shares of the Company's common stock per $1,000 of Debentures, however, the Company has the right to redeem the Debenture any time on or after June 23, 2006 at a price equal to the issue price of the Debentures plus accrued original issue discount and accrued cash interest to the date of redemption.

The average amounts outstanding during 2002, 2001 and 2000 under the revolving credit and demand notes and commercial paper program were $140.3 million, $220.0 million and $170.0 million. respectively, with corresponding effective interest rates of 3.3%, 5.1% and 7.4% including commitment and facility fees. The maximum amounts outstanding at any month-end were, $170 million in 2002, $343.9 million in 2001 and $270.9 million in 2000.

The effective interest rate on the Company's revolving credit, demand notes and commercial paper program, including the respective interest expense and income incurred on existing and now expired designated interest rate swaps, was 6.3%, 6.4% and 7.1% during 2002, 2001 and 2000, respectively. Additional interest (expense)/income recorded as a result of the Company's U.S. dollar denominated hedging activity was ($4,228,000) in 2002, ($2,730,000) in 2001 and $414,000 in 2000. The Company is exposed to credit loss in the event of non-performance by the counter-party to the interest rate swap agreements. All of the counter-parties are creditworthy financial institutions rated AA or better by Moody's Investor Service and the Company does not anticipate non-performance. The estimated fair value of the cost to the Company to terminate the interest rate swap obligations including the Euro denominated interest rate swaps, at December 31, 2002 and 2001 was approximately $10.4 million and $11.7 million, respectively.

Covenants relating to long-term debt require maintenance of a minimum net worth, specified debt to total capital and fixed charge coverage ratios. The Company is in compliance with all required covenants as of December 31, 2002.

The fair value of the Company's long-term debt at December 31, 2002 and 2001 was approximately $791.1 million and $751.5 million, respectively.

Aggregate maturities follow:

	(000s)
2003	$ 8,253
2004	12,632
2005	10,915
2006	142,053
2007	10,139
Later	815,302
Total	$ 999,294
Less: Discount on Convertible Debentures	(310,527)
Net Total	$ 688,767

Included in the aggregate maturities shown above, are maturities related to the Company's Euro denominated debt ($45.4 million in the aggregate) which mature as follows: $4.5 million in 2003; $6.1 million in 2004; $7.6 million in 2005; $9.1 million in 2006; $9.1 million in 2007 and $9.0 million in later years.

5) COMMON STOCK

In April, 2001, the Company declared a two-for-one stock split in the form of a 100% stock dividend which was paid on June 1, 2001 to shareholders of record as of May 16, 2001. All classes of common stock participated on a pro rata basis and all references to share quantities and earnings per share for all periods presented have been adjusted to reflect the two-for-one stock split.

During 1998 and 1999, the Company's Board of Directors approved stock purchase programs authorizing the Company to purchase up to twelve 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 2,408,000 shares at an average purchase price of $14.95 per share ($36.0 million in the aggregate) during 2000, 178,057 shares at an average purchase price of $43.33 per share ($7.7 million in the aggregate) during 2001 and 1,713,787 shares at an average purchase price of $44.71 per share ($76.6 million in the aggregate) during 2002. Since inception of the stock purchase program in 1998 through December 31, 2002, the Company purchased a total of 9,517,602 shares at an average purchase price of $22.74 per share ($216.4 million in the aggregate).

At December 31, 2002, 17,584,459 shares of Class B Common Stock were reserved for issuance upon conversion of shares of Class A, C and D Common Stock outstanding, for issuance upon exercise of options to purchase Class B Common Stock, for issuance upon conversion of the Company's discounted Convertible Debentures and for issuance of stock under other incentive plans. Class A, C and D Common Stock are convertible on a share for share basis into Class B Common Stock.

As discussed in Note 1, the Company accounts for stock-based compensation using the intrinsic value method in APB No. 25, as permitted under SFAS No. 123. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following range of assumptions used for the fifteen option grants that occurred during 2002, 2001 and 2000:

Year Ended December 31,	2002	2001	2000
Volatility	53%-57%	21%-49%	21%-44%
Interest rate	3%-4%	4%-6%	5%-7%
Expected life (years)	3.7	3.8	3.7
Forfeiture rate	4%	7%	1%

Stock options to purchase Class B Common Stock have been granted to officers, key employees and directors of the Company under various plans.

Information with respect to these options is summarized as follows:

Outstanding Options	Number of Shares	Average Option Price	Range (High-Low)
Balance, January 1, 2000	3,404,910	$ 17.14	$ 28.28 - $ 7.32
Granted	529,000	$ 23.05	$ 33.72 - $22.28
Exercised	(1,455,740)	$ 13.81	$ 28.28 - $ 7.32
Cancelled	(94,126)	$ 21.54	$ 28.28 - $11.85
Balance, January 1, 2001	2,384,044	$ 20.32	$ 33.72 - $11.85
Granted	2,051,200	$ 42.23	$ 42.65 - $37.82
Exercised	(318,525)	$ 21.38	$ 33.72 - $11.85
Cancelled	(298,750)	$ 31.35	$ 42.41 - $11.85
Balance, January 1, 2002	3,817,969	$ 31.14	$ 42.65 - $11.85
Granted	320,500	$ 41.76	$ 51.40 - $39.96
Exercised	(470,385)	$ 24.34	$ 42.41 - $11.85
Cancelled	(74,000)	$ 35.02	$ 43.50 - $20.22
Balance, December 31, 2002	3,594,084	$ 32.89	$ 51.40 - $11.85

Outstanding Options at December 31, 2002:

Number of Shares	Average Option Price	Range (High-Low)	Contractual Life
529,500	$ 12.1764	$ 16.8750-$11.8438	1.8
946,784	$ 23.7443	$ 33.7200-$20.2188	1.2
2,096,300	$ 42.0703	$ 44.0000-$34.0000	3.2
21,500	$ 51.3784	$ 51.4000-$51.0900	4.7
3,594,084			

All stock options were granted with an exercise price equal to the fair market value on the date of the grant. Options are exercisable ratably over a four-year period beginning one year after the date of the grant. The options expire five years after the date of the grant. The outstanding stock options at December 31, 2002 have an average remaining contractual life of 2.5 years. At December 31, 2002, options for 2,054,614 shares were available for grant. At December 31, 2002, options for 1,393,143 shares of Class B Common Stock with an aggregate purchase price of $36.9 million (average of $26.48 per share) were exercisable.

During the third quarter of 2002, the Company restructured certain elements of its long-term incentive compensation plans in response to recent changes in regulations relating to such plans. Prior to the third quarter of 2002, the Company loaned employees funds (“Loan Program”) to pay the income tax liabilities incurred upon the exercise of their stock options. Advances pursuant to the Loan Program were secured by full recourse promissory notes that were forgiven after three years, if the borrower remained employed by the Company. If the forgiveness criteria were not met, the employee was required to repay the loan at the time of separation.

During the third quarter of 2002, this Loan Program was terminated. As a replacement long-term incentive plan, the Compensation Committee of the Company’s Board of Directors approved the issuance of 575,997 shares (net of cancellations) of restricted stock at $51.15 per share ($29.5 million in the aggregate) to various officers and employees pursuant to the Company’s 2001 Employees’ Restricted Stock Purchase Plan (“Restricted Stock”). The number of shares and the current value of the Restricted Stock issued to each employee were based on the estimated benefits lost by that employee as a result of the termination of the Loan Program. The Restricted

Stock is scheduled to vest ratably on the third, fourth and fifth anniversary dates of the award. Included in the Restricted Stock granted was 319,490 restricted shares issued to the Company's Chief Executive Officer ("CEO") which are also scheduled to vest ratably on the third, fourth and fifth anniversary dates of the award. However, subject to stockholder approval of certain amendments to the Restricted Stock Purchase Plan, the shares issued to the Company's CEO will be awarded only if the Company achieves a 14% cumulative increase in earnings during the two-year period ending December 31, 2004, as compared to the year ended December 31, 2002.

In connection with the Loan Program, it was the Company's policy to charge compensation expense for the loan forgiveness over the employees' estimated service period or approximately six years on average. As of December 31, 2002, the Company had approximately $18 million of loans outstanding in connection with the Loan Program (approximately $13 million of which was loaned to officers of the Company), of which approximately $15 million was charged to compensation expense through that date. The balance will be charged to compensation expense over the remaining service periods (through March, 2007), assuming the forgiveness criteria are met. In addition, as of July 1, 2002, the Company had recorded an additional accrual of approximately $16.0 million related to the estimated benefits earned under the Loan Program for which loans had not yet been extended. As a result of the termination of the Loan Program, this accrued liability was adjusted by reducing compensation expense by $16.0 million during 2002 (the majority of which was recorded during the third quarter of 2002) since the Company does not have any future obligations related to the benefits that employees might have been entitled to if the Loan Program had continued.

Since the Restricted Stock awards were primarily intended to replace the benefits that had been earned under the Loan Program, a portion of the awards was attributable to services rendered by employees in prior periods. Accordingly, in connection with the issuance of the Restricted Stock awards during 2002, during the third quarter of 2002 the Company recorded approximately $14.1 million of compensation expense which represented the prior service portion of the expense related to the Restricted Stock awards. During the fourth quarter of 2002, an additional $1.2 million of compensation expense was recorded related to the Restricted Stock awards. The remaining expense associated with the Restricted Stock awards (estimated at $14.2 million as of December 31, 2002, but subject to adjustment based on the market value of the shares granted to the Company's CEO) will be recorded over the vesting periods of the awards (through the third quarter of 2007), assuming the recipients remain employed by the Company.

In addition to the stock option plan the Company has the following stock incentive and purchase plans: (i) a Stock Compensation Plan which expires in November, 2004 under which Class B Common Shares may be granted to key employees, consultants and independent contractors (officers and directors are ineligible); (ii) a Stock Ownership Plan whereby eligible employees (officers of the Company are no longer eligible) may purchase shares of Class B Common Stock directly from the Company at current market value and the Company will loan each eligible employee 90% of the purchase price for the shares, subject to certain limitations, (loans are partially recourse to the employees); (iii) a 2001 Restricted Stock Purchase Plan which allows eligible participants to purchase shares of Class B Common Stock at par value, subject to certain restrictions (575,997 shares issued during 2002), and; (iv) a Stock Purchase Plan which allows eligible employees to purchase shares of Class B Common Stock at a ten percent discount. The Company has reserved 3.4 million shares of Class B Common Stock for issuance under these various plans (excluding terminated plans) and has issued 1.6 million shares pursuant to the terms of these plans (excluding terminated plans) as of December 31, 2002, of which 38,432, 3,542 and 54,076 became fully vested during 2002, 2001 and 2000, respectively.

In connection with the long-term incentive plans described above, the Company recorded net compensation expense of $3.6 million in 2002, $12.6 million in 2001 and $6.8 million in 2000.

6) INCOME TAXES

Components of income taxes are as follows:

	Year Ended December 31,		
	2002	2001	2000
	(000s)		
Currently payable			
Federal and foreign	$ 97,070	$ 66,122	$ 35,506
State	8,384	5,851	3,217
	105,454	71,973	38,723
Deferred			
Federal	(3,440)	(13,622)	12,884
State	(304)	(1,204)	1,139
	(3,744)	(14,826)	14,023
Total	$ 101,710	$ 57,147	$ 52,746

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," (SFAS 109). Under SFAS 109, deferred taxes are required to be classified based on the financial statement classification of the related assets and liabilities which give rise to temporary differences. Deferred taxes result from temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The components of deferred taxes are as follows:

	Year Ended December 31,	
	2002	2001
	(000s)	
Self-insurance reserves	$ 51,737	$ 40,730
Doubtful accounts and other reserves	(13,351)	(11,063)
State income taxes	1,087	321
Other deferred tax assets	40,935	23,141
Depreciable and amortizable assets	(69,651)	(56,741)
Total deferred taxes	$ 10,757	$ (3,612)

A reconciliation between the federal statutory rate and the effective tax rate is as follows:

	Year Ended December 31,		
	2002	2001	2000
Federal statutory rate	35.0%	35.0%	35.0%
Deductible depreciation, amortization and other	(0.2)	(0.7)	(0.8)
State taxes, net of federal income tax benefit	1.9	1.9	1.9
Effective tax rate	36.7%	36.2%	36.1%

The net deferred tax assets and liabilities are comprised as follows:

	Year Ended December 31,	
	2002	2001
	(000s)	
Current deferred taxes		
Assets	$ 38,374	$ 36,290
Liabilities	(13,351)	(11,063)
Total deferred taxes-current	25,023	25,227
Noncurrent deferred taxes		
Assets	55,385	27,902
Liabilities	(69,651)	(56,741)
Total deferred taxes-noncurrent	(14,266)	(28,839)
Total deferred taxes	$ 10,757	$ (3,612)

The assets and liabilities classified as current relate primarily to the allowance for uncollectible patient accounts and the current portion of the temporary differences related to self-insurance reserves. Under SFAS 109, a valuation allowance is required when it is more likely than not that some portion of the deferred tax assets will not be realized. Realization is dependent on generating sufficient future taxable income. Although realization is not assured, management believes it is more likely than not that all the deferred tax assets will be realized. Accordingly, the Company has not provided a valuation allowance. The amount of the deferred tax asset considered realizable, however, could be reduced if estimates of future taxable income during the carry-forward period are reduced.

7) LEASE COMMITMENTS

Certain of the Company's hospital and medical office facilities and equipment are held under operating or capital leases which expire through 2008 (See Note 9). Certain of these leases also contain provisions allowing the Company to purchase the leased assets during the term or at the expiration of the lease at fair market value.

A summary of property under capital lease follows:

	Year Ended December 31,	
	2002	2001
	(000s)	
Land, buildings and equipment	$ 42,346	$ 31,902
Less: accumulated amortization	(23,551)	(23,140)
	$ 18,795	$ 8,762

Future minimum rental payments under lease commitments with a term of more than one year as of December 31, 2002, are as follows:

Year	Capital Leases	Operating Leases
	(000s)	
2003	$ 5,048	$ 32,704
2004	5,426	28,180
2005	4,026	20,971
2006	3,571	16,043
2007	1,482	2,914
Later Years	5,920	5,048
Total minimum rental	$ 25,473	$ 105,860
Less: Amount representing interest	7,552	
Present value of minimum rental commitments	17,921	
Less: Current portion of capital lease obligations	3,496	
Long-term portion of capital lease obligations	$ 14,425	

Capital lease obligations of $9.5 million in 2002, $10.6 million in 2001 and $1.9 million in 2000 were incurred when the Company entered into capital leases for new equipment or assumed capital lease obligations upon the acquisition of facilities.

8) 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. Total insurance expense including professional and general liability, property, auto and workers' compensation, was approximately $25 million higher in 2002 as compared to 2001. 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 professional and general liability insurance policies with PHICO, a Pennsylvania-based commercial insurance company. Certain subsidiaries, including hospitals located in Washington, D.C., Puerto Rico and south Texas were covered under policies with various coverage limits up to $5 million per occurrence through December 31, 2001. The majority of the remaining subsidiaries were covered under policies, which provided for a self-insured retention limit up to $1 million per occurrence, with an annual aggregate retention amount of approximately $4 million in 1998, $5 million in 1999, $7 million in 2000 and $11 million in 2001. These subsidiaries maintain excess coverage up to $100 million with other major insurance carriers.

Early in the first quarter of 2002, PHICO was placed in liquidation by the Pennsylvania Insurance Commissioner. As a result, during the fourth quarter of 2001, the Company recorded a $40 million pre-tax charge to earnings to accrue for its estimated liability that resulted from this event. Management estimated this liability based on a number of factors including, among other things, the number of asserted claims and reported incidents, estimates of losses for these claims based on recent and historical settlement amounts, estimates of unasserted claims based on historical experience, and estimated recoveries from state guaranty funds.

When PHICO entered liquidation proceedings, each state's department of insurance was required to declare PHICO as insolvent or impaired. That designation effectively triggers coverage under the applicable state's insurance guarantee association, which operates as replacement coverage, subject to the terms, conditions and limits set forth in that particular state. Therefore, the Company is entitled to receive reimbursement from those state's guarantee funds for which it meets the eligibility requirements. In addition, the Company may be entitled to receive reimbursement from PHICO's estate for a portion of the claims ultimately paid by the Company. Management expects that the remaining cash payments related to these claims will be made over the next seven years as the cases are settled or adjudicated.

Included in other assets as of December 31, 2002 and 2001, were estimates of approximately $37 million and $54 million, respectively, representing expected recoveries from various state guaranty funds. The reduction in estimated recoveries as of December 31, 2002 as compared to December 31, 2001 is due to Management's reassessment of its ultimate liability for general and professional liability claims relating to the period from 1998 through 2001, its estimate of related recoveries under state guaranty funds, and payments received during 2002 from such state guaranty funds. While Management continues to monitor the factors used in making these estimates, the Company's ultimate liability for professional and general liability claims and its actual recoveries from state guaranty funds, could change materially from current estimates due to the inherent uncertainties involved in making such estimates. Therefore, there can be no assurance that changes in these estimates, if any, will not have a material adverse effect on the Company's financial position, results of operations or cash flows in future periods.

As of December 31, 2002, the total accrual for the Company's professional and general liability claims, including all PHICO related claims was $168.2 million ($131.2 million net of expected recoveries from state guaranty funds), of which $12.0 million is included in other current liabilities. As of December 31, 2001, the total reserve for the Company's professional and general liability claims was $158.1 million ($104.1 million net of expected recoveries from state guaranty funds), of which $26.0 million is included in other current liabilities.

As of December 31, 2002, the Company has outstanding letters of credit and surety bonds totaling $28.4 million consisting of: (i) $22.5 million related to the Company's self-insurance programs, and; (ii) $5.9 million consisting primarily of collateral for outstanding bonds of an unaffiliated party and public utilities.

The Company entered into a long-term contract with a third party, that expires in 2012, to provide certain data processing services for its acute care and behavioral health facilities.

During the fourth quarter of 2000, the Company recognized a pre-tax charge of $7.7 million to reflect the amount of an unfavorable jury verdict and reserve for future legal costs relating to an unprofitable facility that was closed during the first quarter of 2001. During 2001, an appellate court issued an opinion affirming the jury verdict and during the first quarter of 2002, the Company filed a petition for review by the Texas Supreme Court, which has accepted the case for review. Pending the outcome of the state supreme court review, the Company recorded interest expense related to this unfavorable jury verdict in the amount of $700,000 in both 2002 and 2001. During the fourth quarter of 2002, as a result of the sale of the real estate of this facility, the Company recorded a pre-tax $2.2 million gain.

In addition, various suits and claims arising in the ordinary course of business are pending against the Company. In the opinion of management, the outcome of such claims and litigation will not materially affect the Company's consolidated financial position or 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. Government action has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse and false claims statutes and/or regulations by healthcare providers. Providers that are found to have violated these

laws and regulations may be excluded from participating in government healthcare programs, subjected to fines or penalties or required to repay amounts received from government for previously billed patient services. While management of the Company believes its policies, procedures and practices comply with governmental regulations, no assurance can be given that the Company will not be subjected to governmental inquiries or actions.

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. Organizations are required to be in compliance with certain HIPAA provisions beginning in April, 2003. 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. 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.

9) RELATED PARTY TRANSACTIONS

At December 31, 2002, 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 this advisory agreement, the Company conducts the Trust's day to day affairs, provides administrative services and presents investment opportunities. 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, 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 $1.4 million during 2002, $1.3 million during 2001 and $1.2 million during 2000, and is included in net revenues in the accompanying consolidated statements of income. The carrying value of this investment was $9.1 million and $9.0 million at December 31, 2002 and 2001, respectively, and is included in other assets in the accompanying consolidated balance sheets. The market value of this investment was $20.3 million at December 31, 2002 and $18.0 million at December 31, 2001.

As of December 31, 2002, the Company leased six hospital facilities from the Trust with terms expiring in 2004 through 2008. These leases contain up to six 5-year renewal options. During 2002, the Company exercised the five-year renewal option on an acute care hospital leased from the Trust which was scheduled to expire in 2003. The renewal rate on this facility is based upon the five year Treasury rate on March 29, 2003 plus a spread. Future minimum lease payments to the Trust are included in Note 7. Total rent expense under these operating leases was $17.2 million in 2002, $16.5 million in 2001 and $17.1 million in 2000. The terms of the lease provide that in the event the Company discontinues operations at the leased facility for more than one year, the Company is obligated to offer a substitute property. If the Trust does not accept the substitute property offered, the Company is obligated to purchase the leased facility back from the Trust at a price equal to the greater of its then fair market value or the original purchase price paid by the Trust. As of December 31, 2002, the aggregate fair market value of the Company's facilities leased from the Trust is not known, however, the aggregate original purchase price paid by the Trust for these properties was $112.5 million. The Company received an advisory fee from the Trust of $1.4 million in 2002 and $1.3 million in both 2001 and 2000 for investment and administrative services provided under a contractual agreement which is included in net revenues in the accompanying consolidated statements of income.

During 2000, the Company sold the real property of a medical office building to limited liability company that is majority owned by the Trust for cash proceeds of approximately $10.5 million. Tenants in the multi-tenant building include subsidiaries of the Company as well as unrelated parties.

In connection with a long-term incentive compensation plan that was terminated during the third quarter of 2002, the Company had $18 million as of December 31, 2002 and $21 million as of December 31, 2001, of gross loans outstanding to various employees of which $15 million as of December 31, 2002 and $18 million as of December 31, 2001 were charged to compensation expense through that date. Included in the amounts outstanding were gross loans to officers of the Company amounting to $13 million as of December 31, 2002 and $16 million as of December 31, 2001 (see Note 5).

The Company's Chairman and Chief Executive Officer is member of the Board of Directors of Broadlane, Inc. In addition, the Company and certain members of executive management own approximately 6% of the outstanding shares of Broadlane, Inc. as of December 31, 2002. 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. Another member of the Company's Board of Directors and member of the Board's Executive and Audit Committees was formerly Senior Vice Chairman and Managing Director of the investment banking firm used by the Company as one of its Initial Purchasers for the Convertible Debentures issued in 2000.

10) PENSION PLAN

The Company maintains contributory and non-contributory retirement plans for eligible employees. The Company's contributions to the contributory plan amounted to $7.2 million, $6.2 million and $4.7 million in 2002, 2001 and 2000, respectively. The non-contributory plan is a defined benefit pension plan which covers employees of one of the Company's subsidiaries. The benefits are based on years of service and the employee's highest compensation for any five years of employment. The Company's funding policy is to contribute annually at least the minimum amount that should be funded in accordance with the provisions of ERISA.

The following table shows reconciliations of the defined benefit pension plan for the Company as of December 31, 2002 and 2001:

	2002	2001
	(000s)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 54,100	$ 49,754
Service cost	986	923
Interest cost	3,856	3,667
Benefits paid	(1,732)	(1,810)
Actuarial loss	4,417	1,566
Benefit obligation at end of year	$ 61,627	$ 54,100
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 50,456	$ 53,329
Actual return on plan assets	(5,553)	(873)
Benefits paid	(1,732)	(1,810)
Administrative expenses	(253)	(190)
Fair value of plan assets at end of year	$ 42,918	$ 50,456
Funded status of the plan	$ (18,709)	$ (3,644)
Unrecognized actuarial loss	17,289	2,607
Net amount recognized	$ (1,420)	$ (1,037)
Total amounts recognized in the balance sheet consist of:		
Accrued benefit liability	$ (13,666)	$ (1,037)
Accumulated other comprehensive income	12,246	—
Net amount recognized	$ (1,420)	$ (1,037)
Accumulated other comprehensive loss attributable to change in additional minimum liability recognition	$ 12,246	$ —
Weighted average assumptions as of December 31		
Discount rate	6.75%	7.25%
Expected long-term rate of return on plan assets	9.00%	9.00%
Rate of compensation increase	4.00%	4.00%

	2002	2001	2000
		(000s)	
Components of net periodic cost (benefit)			
Service cost	$ 986	$ 923	$ 921
Interest cost	3,856	3,667	3,428
Expected return on plan assets	(4,459)	(4,723)	(4,700)
Recognized actuarial gain	—	—	(413)
Net periodic cost (benefit)	$ 383	$ (133)	$ (764)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plan with accumulated benefit obligations in excess of plan assets were $61,627, $56,584 and $42,918, respectively as of December 31, 2002. The fair value of plan assets, comprised of approximately 70% equities and 30% fixed income securities, exceeded the accumulated benefit obligations of the plan, as of December 31, 2001. As a result of a reduction in the expected long-term rate of return to 8% and reduction of the discount rate to 6.75% for 2003, the Company’s pension expense is estimated to increase by approximately $3 million as compared to 2002.

11) SEGMENT REPORTING

The Company's reportable operating segments consist of acute care services and behavioral health care services. The "Other" segment column below includes centralized services including information services, purchasing, reimbursement, accounting, taxation, legal, advertising, design and construction, and patient accounting as well as the operating results for the Company's other operating entities including outpatient surgery and radiation centers and an 80% ownership interest in an operating company that owns nine hospitals located in France. The Company's France subsidiary is included on the basis of the year ended November 30th. The chief operating decision making group for the Company's acute care services and behavioral health care services located in the U.S. and Puerto Rico is comprised of the Company's President and Chief Executive Officer, and the lead executives of each of the Company's two primary operating segments. The lead executive for each operating segment also manages the profitability of each respective segment's various hospitals. The acute care and behavioral health services' operating segments are managed separately because each operating segment represents a business unit that offers different types of healthcare services. The accounting policies of the operating segments are the same as those described in the Summary of Significant Accounting Policies included in Footnote 1 to the Consolidated Financial Statements. The Company adopted SFAS Nos. 142 and 144, effective January 1, 2002. There was no impact on the segment data presented as a result of the adoption of these pronouncements.

2002	Acute Care Services	Behavioral Health Care Services	Other	Total Consolidated
		(Dollar amounts in thousands)		
Gross inpatient revenues	$5,183,944	$ 979,824	$ 94,511	$6,258,279
Gross outpatient revenues	$1,814,757	$ 149,604	$159,905	$2,124,266
Total net revenues	$2,524,292	$ 565,585	$169,021	$3,258,898
Operating income(a)	$ 433,369	$ 114,341	$ (31,691)	$ 516,019
Total assets	$1,692,360	$ 259,010	$371,859	$2,323,229
Licensed beds	5,813	3,752	1,083	10,648
Available beds	4,802	3,608	1,083	9,493
Patient days	1,239,040	1,005,882	319,100	2,564,022
Admissions	266,261	84,348	63,781	414,390
Average length of stay	4.7	11.9	5.0	6.2

2001	Acute Care Services	Behavioral Health Care Services	Other	Total Consolidated
Gross inpatient revenues	$ 4,032,623	$ 908,424	$ 53,725	$ 4,994,772
Gross outpatient revenues	$ 1,432,232	$ 143,907	$ 145,398	$ 1,721,537
Total net revenues	$ 2,182,052	$ 538,443	$ 119,996	$ 2,840,491
Operating Income(a)	$ 389,179	$ 102,502	$ (49,760)	$ 441,921
Total assets	$ 1,488,979	$ 274,013	$ 405,597	$ 2,168,589
Licensed beds	5,514	3,732	720	9,966
Available beds	4,631	3,588	720	8,939
Patient days	1,123,264	950,236	180,111	2,253,611
Admissions	237,802	78,688	38,627	355,117
Average length of stay	4.7	12.1	4.7	6.3

2000	Acute Care Services	Behavioral Health Care Services	Other	Total Consolidated
Gross inpatient revenues	$ 3,152,132	$ 584,030	$ 21,071	$ 3,757,233
Gross outpatient revenues	$ 1,104,264	$ 103,015	$ 116,765	$ 1,324,044
Total net revenues	$ 1,816,353	$ 356,340	$ 69,751	$ 2,242,444
Operating income(a)	$ 337,580	$ 64,960	$ (43,215)	$ 359,325
Total assets	$ 1,346,150	$ 267,427	$ 128,800	$ 1,742,377
Licensed beds	4,980	2,612	—	7,592
Available beds	4,220	2,552	—	6,772
Patient days	1,017,646	608,423	—	1,626,069
Admissions	214,771	49,971	—	264,742
Average length of stay	4.7	12.2	—	6.1

(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 and extraordinary charge:

	2002	2001	2000
	(Amounts in thousands)		
Consolidated operating income	$ 516,019	$ 441,921	$ 359,325
Less: Depreciation & amortization	124,794	127,523	112,809
Lease & rental expense	61,712	53,945	49,039
Interest expense, net	34,746	36,176	29,941
Provision for insurance settlements	—	40,000	—
(Recovery of)/facility closure costs	(2,182)	—	7,747
Minority interests in earnings of consolidated entities	19,658	17,518	13,681
Losses on foreign exchange and derivative transactions	220	8,862	—
Consolidated income before income taxes and extraordinary charge	$ 277,071	$ 157,897	$ 146,108

12) QUARTERLY RESULTS

The following tables summarize the Company's quarterly financial data for the two years ended December 31, 2002:

2002	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(000s, except per share amounts)			
Net revenues	$ 804,371	$ 805,945	$ 813,104	$ 835,478
Income before income taxes and extraordinary charge	$ 72,165	$ 70,072	$ 65,489	$ 69,345
Net income	$ 45,673	$ 44,347	$ 41,451	$ 43,890
Earnings per share—basic	$ 0.76	$ 0.74	$ 0.69	$ 0.74
Earnings per share—diluted	$ 0.71	$ 0.69	$ 0.65	$ 0.69

Net revenues in 2002 include $33.0 million of additional revenues received from Medicaid disproportionate share hospital ("DSH") funds in Texas and South Carolina. Of this amount, $8.4 million was recorded in the first quarter, $8.8 million in the second quarter, $7.0 million in the third quarter and $8.8 million in the fourth quarter. These amounts were recorded in periods that the Company met all of the requirements to be entitled to these reimbursements. Failure to renew these programs beyond their scheduled termination dates (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, could have a material adverse effect on the Company's future results of operations. Included in the Company's results during the fourth quarter of 2002 is a $2.2 million pre-tax gain on the sale of the real estate of a hospital that was closed in 2001 ($.02 per diluted share after-tax).

2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(000s, except per share amounts)			
Net revenues	$ 676,949	$ 718,596	$ 720,784	$ 724,162
Income before income taxes and extraordinary charge	$ 56,923	$ 50,888	$ 47,519	$ 2,567
Net income	$ 36,171	$ 32,390	$ 30,254	$ 927
Earnings per share after extraordinary charge—basic	$ 0.60	$ 0.54	$ 0.50	$ 0.02
Earnings per share after extraordinary charge—diluted	$ 0.57	$ 0.51	$ 0.48	$ 0.02

Net revenues in 2001 include $32.6 million of additional revenues received from DSH funds in Texas and South Carolina. Of this amount, $6.4 million was recorded in the first quarter, $9.1 million in the second quarter, $8.8 million in the third quarter and $8.3 million in the fourth quarter. These amounts were recorded in periods that the Company met all of the requirements to be entitled to these reimbursements. Included in the Company's results for the fourth quarter of 2001 are the following charges: (i) a $40.0 million pre-tax charge ($.38 per diluted share after-tax) to reserve for malpractice expenses that may result from the liquidation of the Company's third party malpractice insurance company (PHICO); (ii) a $7.4 million pre-tax charge ($.07 per diluted share after-tax) resulting from the early termination of interest rate swaps, and; (iii) a $1.6 million pre-tax charge ($.01 per diluted share after-tax) from the early extinguishment of debt.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Additions: Charges to Costs and Expenses	Additions: Acquisitions of Businesses	Write-Off of Uncollectible Accounts	Balance at End of Period
			(000s)		
ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE:					
Year ended December 31, 2002	$ 61,108	$ 231,362	$ 6,260	$ (239,586)	$ 59,144
Year ended December 31, 2001	$ 65,358	$ 240,025	$ 857	$ (245,132)	$ 61,108
Year ended December 31, 2000	$ 55,686	$ 192,625	$ 6,651	$ (189,604)	$ 65,358

EXHIBIT 10.1

AMENDED AND RESTATED
EMPLOYMENT AGREEMENT

THIS AGREEMENT, dated as of November 14, 2001, by and between UNIVERSAL HEALTH SERVICES, INC., a Delaware corporation having its principal office at 367 South Gulph Road, King of Prussia, Pennsylvania 19406 (the "Company") and ALAN B. MILLER, residing at 57 Crosby Brown Road, Gladwyne, Pennsylvania 19035 ("Employee").

W I T N E S S E T H:

WHEREAS, employee has been and is employed by the Company as its President and Chief Executive Officer pursuant to an Employment Agreement dated as of January 1, 1981, as amended December 1984, July 15, 1987, June 1, 1989, and restated as of July 14,1992, and December 31, 1997 (the "Employment Agreement"), and Employee has served and is presently serving as a Director of the Company;

WHEREAS, the Company and Employee desire that such employment continue pursuant to the terms and conditions hereof;

WHEREAS, because of the position Employee now holds with the Company and will hold during the term of this Agreement, the Company's Board of Directors considers it in the best interests of the Company, for an extended period after the term of Employee's active employment, that the Company have the benefit of Employee's services as a consultant and that Employee refrain from competing with the Company; and

WHEREAS, after the term of his active employment by the Company, Employee is willing to serve as a consultant to the Company and to refrain from competing with the Company pursuant to the terms and conditions hereof applicable thereto;

WHEREAS, the Employment Agreement is hereby amended and restated in its entirety by this Agreement;

NOW, THEREFORE, for and in consideration of the mutual premises, representations and covenants herein contained, it is agreed as follows:

1. Term of Active Employment and Consulting Period.

The phrase "term of active employment," as used in this Agreement, shall mean the period beginning November 14, 2001, and ending on December 31, 2007, subject, however, to earlier termination as expressly provided herein, and subject further to the right of Employee or the Company to extend the term of active employment until December 31, 2012, by giving written notice thereof to the other within one hundred eight (180) days prior to December 31, 2007. The phrase "consulting period," as used in this Agreement, shall mean, except as otherwise provided herein, the period beginning immediately upon the expiration of the term of active employment, as it may be extended, and continuing for five years after such expiration. The phrase "term of this Agreement," as used in this Agreement, shall mean the term of active employment and the consulting period together.

2. Active Employment.

The Company agrees to employ Employee, and Employee agrees to be employed by the Company, as Chief Executive Officer and President of the Company during the term of employment.

3. Duties.

(a) Employee agrees in the performance of his duties as Chief Executive Officer and President of the Company during the term of active employment to comply with the policies and reasonable directives of the Board of Directors of the Company

(and any subsidiary or subsidiaries of the Company which shall, with the consent of Employee, at the time employ Employee).

(b) Employee agrees to devote his full time to the performance of his duties during the term of active employment; and Employee shall not, directly or indirectly, alone or as a member of a partnership, or as an officer, director or employee of any other corporation, partnership or other organization, be actively engaged in or concerned with any other duties or pursuits which interfere with the performance of his duties hereunder.

(c) The Company agrees that during the term of active employment Employees' duties shall be such as to allow him to work and live in the Philadelphia Metropolitan Area, and in no event shall Employee be required to move his residence from, or operate (except in accordance with past practice) outside of, the Philadelphia Metropolitan Area.

4. Base Salary.

(a) As compensation for the services to be rendered by Employee hereunder, the Company agrees to payor cause to be paid to Employee for the fiscal year ending December 31, 2001, and each fiscal year thereafter during the term of this Agreement a base salary of one million dollars ($1,000,000) per annum which salary shall be increased by an amount equal at least to the percentage increase in the Consumer Price Index over the previous year as reported by the United States Department of Labor, Bureau of Labor Statistics, for the Philadelphia Metropolitan Area, and may be increased by such larger amount as the Board of Directors in its discretion may determine, but in no event shall the salary be reduced from the salary paid during the previous fiscal year.

(b) The Company also agrees to payor reimburse Employee during the term of active employment for all reasonable travel and other expenses incurred or paid by

Employee in connection with the performance of his services under this Agreement in accordance with past practice.

5. Annual Bonus.

It is acknowledged that it has been the practice of the Company to award Employee an annual bonus (the "Annual Bonus"). It is agreed that the Annual Bonus award shall be continued during the term of employment as follows: the Company shall pay to Employee during the term of active employment, within ninety (90) days after the end of the fiscal year ending December 31, 2001, and of each fiscal year of the Company thereafter during the term of active employment, an amount determined by the Board of Directors, but not less than one hundred thousand dollars ($100,000).

6. Other Bonuses and Benefits.

(a) Employee may also be paid during the term of active employment, in addition to the arrangements described above, such bonuses and other compensation as may from time to time be determined by the Board of Directors of the Company.

(b) Employee shall also be eligible to and shall participate in, and receive the benefits of, any and all profit sharing, pension, bonus, stock option or insurance plans, or other similar types of benefit plans which may be initiated or adopted by the Company.

7. Fringe Benefits.

Employee shall be entitled to and shall receive the following benefits during the term of this Agreement:

(a) All prior benefits previously enjoyed in accordance with past practice; and

(b) Health, disability and accident insurance as presently in force or as may be improved by the Board of Directors.

8. Consulting Period Retention and Duties.

(a) Except as otherwise provided in Sections 9, 10, and 11 hereof, Employee agrees to be retained by the Company, and Company agrees to retain Employee, as a consultant to the Company during the consulting period.

(b) During the consulting period Employee will provide such reasonable consulting services concerning the business, affairs and management of the Company as may be requested by the Company's Board of Directors, but Employee shall not be required to devote more than five (5) business days each month to such services, which shall be performed at such place as is mutually convenient to both parties or, in the event there is no agreement as to a mutually convenient place, such services shall be performed at the principal executive offices of the Company. Employee may, subject to the restrictions of Section 13, engage in other employment during the consulting period as is not inconsistent with his consulting obligations hereunder.

9. Consulting Period Compensation.

(a) As compensation for the services to be rendered by Employee during the consulting period the Company agrees to payor cause to be paid to Employee a fee equal to one-half Employee's base salary paid under Section 4 hereof at the date of the expiration of the term of active employment, payable in equal monthly installments during the consulting period.

(b) The Company also agrees to payor reimburse Employee for all reasonable travel and other expenses incurred or paid by Employee in connection with the

performance of his services under this Agreement during the consulting period in accordance with the payment or reimbursement practices in effect during the term of active employment.

10. Disability.

If during the term of active employment Employee shall become physically or mentally disabled, whether totally or partially, so that he is prevented from performing his usual duties for a period of six (6) consecutive months, or for shorter periods aggregating six months in any twelve-month period, the Company shall, nevertheless, continue to pay Employee his full compensation, when otherwise due, as provided in this Agreement through the last day of the sixth consecutive month of disability or the date on which the shorter periods of disability shall have equaled a total of six (6) months in any twelve-month period. The Company may, by action of all but one of the members of the Company's Board of Directors, at any time on or after such day, by written notice to Employee (the "Disability Notice"), provided Employee has not resumed his usual duties prior to the date of the Disability Notice, terminate (as of the first day of the month following the date of the Disability Notice, provided that Employee shall also be paid a pro rata portion of the Annual Bonus which would otherwise have been payable for such fiscal year in which the Disability Notice is given) the compensation otherwise payable to Employee during the term of active employment and pay to Employee the Disability Payment. The Disability Payment shall mean the payment by the Company to Employee of a sum equal to one- half of Employee's base salary paid under Section 4 hereof at the date of the Disability Notice, payable in twelve equal monthly installments.

11. Death.

(a) If Employee shall die during the term of this Agreement, this Agreement shall terminate as of the last day of the month of Employee's death except as set forth in subsection (b) of this Section 11.

(b) Anything to the contrary notwithstanding, the Company shall pay to Employee's wife on the date of his death or, in the event Employee is unmarried on the date of his death, to his estate, a pro rata portion of the Annual Bonus which would otherwise have been payable to Employee for the fiscal year in which he died, which pro rata portion shall be determined as of the last day of the month of Employee's death, together with any items of reimbursement or salary owed to Employee as of the date of his death. In addition, the Company shall file claims and take other appropriate action with respect to any life insurance policies maintained on Employee's life by the Company for which Employee had the right to designate the beneficiary.

12. Termination.

(a) Discharge for Cause. The Company recognizes that during the many years of Employee's employment by the Company, the Company has become familiar with Employee's ability, competence and judgment. The Company acknowledges, on the basis of such familiarity, that Employee's ability, competence and judgment are satisfactory to the Company. Employee is continuing his employment with the Company hereunder in reliance upon the foregoing expression of satisfaction by the Company. It is therefore agreed that "discharge for cause" shall include discharge by the Company on the following grounds only:

(i) Employee's conviction (which, through lapse of time or otherwise, is not subject to appeal) of any crime or offense involving money or other property of the Company or its subsidiaries; or

(ii) Employee's conviction (which, through lapse of time or otherwise, is not subject to appeal) of any other crime (whether or not involving the Company or its subsidiaries) which constitutes a felony in the jurisdiction involved; or

(iii) Employee's continuing repeated willful failure or refusal to perform his duties as required by this Agreement, provided that discharge pursuant to this subparagraph (iii) shall not constitute discharge for cause unless Employee shall have first received written notice from the Board of Directors of such failure and refusal and affording Employee an opportunity, as soon as practicable, to correct the acts or omissions complained of.

In the event that Employee shall be discharged for cause, all salary and other benefits payable by the Company under this Agreement in respect of periods after such discharge shall terminate upon such discharge, but any benefits payable to or earned by Employee with respect to any period of his employment prior to such discharge shall not be terminated by reason of such discharge. Anything in the foregoing to the contrary notwithstanding, if Employee is convicted of any crime set forth in either Section 12(a)(i) or 12(a)(ii) above, the Company may forthwith suspend Employee without any compensation and choose a new person or persons to perform his duties hereunder during the period between conviction and the time when such conviction, through lapse of time or otherwise, is no longer subject to appeal; provided, however, that if Employee's conviction is subsequently reversed (i) he shall promptly be paid all compensation to which he would otherwise have been entitled during the period of suspension, together with

interest thereon (which interest shall be calculated at a rate per annum equal to the rate of interest payable on the date of such reversal on money judgments after entry thereof under the laws of the Commonwealth of Pennsylvania), and (ii) the Company shall have the right (exercisable within sixty (60) days after such reversal) but not the obligation to restore Employee to active service hereunder at full compensation. If the Company elects not to restore Employee to active service after reversal of a conviction, Employee shall thereafter be paid the full compensation which would otherwise have been payable during the balance of the term of active employment and during the consulting period and Employee shall be entitled to obtain other employment, subject however to (i) an obligation to perform consulting services so long as he is receiving compensation pursuant to the terms of this Agreement, (ii) the continued application of the covenants provided in Section 13 and (iii) the condition that, if Employee does obtain other employment during the period ending on December 31, 2007, or December 31, 2012, if this Agreement is extended by Employee or the Company, his total compensation therefrom (whether paid to him or deferred for his benefit) shall reduce, pro tanto, any amount which the Company would otherwise have been required to pay him during the period ending on December 31, 2007, or December 31, 2012, if this Agreement is extended by Employee or the Company.

(b) Breach by Company. If Employee shall terminate his employment with the Company because of a material change in the duties of his office or any other breach by the Company of its obligations hereunder, or in the event of the termination of Employee's employment by the Company in breach of this Agreement, Employee shall, except as otherwise provided herein, continue to receive all of the compensation provided hereunder and shall be entitled to all of the benefits otherwise provided herein, during the term of this Agreement

notwithstanding such termination and Employee shall have no further obligations or duties under this Agreement.

(c) Mitigation. In the event of the termination by Employee of his employment with the Company as a result of a material breach by the Company of any of its obligations hereunder, or in the event of the termination of Employee's employment by the Company in breach of this Agreement, Employee shall not be required to seek other employment in order to mitigate his damages hereunder; provided, however, that if Employee does obtain other employment, his total compensation therefrom, whether paid to him or deferred for his benefit, shall reduce, pro tanto, any amount which the Company would otherwise be required to pay to him as a result of such breach.

13. Non-Competition.

Employee agrees that he will not during the term of this Agreement, directly or indirectly, own, manage, operate, join, control, be controlled by, or be connected in any manner with any business of the type conducted by the Company or render any service or assistance of any kind to any competitor of the Company or any of its subsidiaries; provided, however, that (i) in the event Employee terminates his employment with the Company as result of a material breach by the Company of any of its obligations hereunder or in the event the Company discharges Employee without cause, Employee shall continue to be bound by the restrictions of this Section 13 only if Employee is receiving the compensation payable to him in accordance with Section 12(b) hereof, and (ii) in the event the Company discharges Employee for cause, Employee shall be bound by the restrictions of this Section for a period of one year following such discharge.

14. Binding Effect.

Except as otherwise provided for herein, this Agreement shall inure to the benefit of and be binding upon the heirs, executors, administrators, successors in interest and assigns of the parties hereto.

15. Effective Date.

This Agreement shall become effective on November 14, 2001.

16. Notices.

All notices provided for herein to be given to any party shall be in writing and signed by the party giving the notice and shall be deemed to have been duly given if mailed, registered or certified mail, return receipt requested, as follows:

(i) If to Employee:

57 Crosby Brown Road
Gladwyne, Pennsylvania 19035

(ii) If to Company:

367 South Gulph Road
King of Prussia, Pennsylvania 19406
Attention: Secretary

Either party may change the address to which notices, requests, demands and other communications hereunder shall be sent by sending written notice of such change of address to the other party.

17. Amendment, Modification and Waiver.

The terms, covenants, representations, warranties or conditions of this Agreement may be amended, modified or waived only by a written instrument executed by the parties hereto, except that a waiver need only be executed by the party waiving compliance. No waiver by any party of any condition, or of the breach of any term, covenant, representation or warranty

contained in this Agreement, whether by conduct or otherwise, in anyone or more instances shall be deemed to be or construed as a waiver of any other condition or breach of any other term, covenant, representation or warranty of this Agreement.

18. Governing Law.

This Agreement shall be construed in accordance with the laws of the Commonwealth of Pennsylvania applicable to agreements made and to be performed therein.

19. Entire Agreement.

This Agreement contains the entire agreement of the parties relating to the subject matter herein contained and supersedes all prior contracts, agreements or understandings between and among the parties, except as set forth herein.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

UNIVERSAL HEALTH SERVICES, INC.

By: _____

Vice President

_____

Alan B. Miller

EXHIBIT 10.3

UNIVERSAL HEALTH **REALTY INCOME TRUST**

Universal Corporate Center
367 South Gulph Road
P.O. Box 61558
King of Prussia, Pennsylvania 19406-0958
(610) 265-0688

December 31, 2002

Mr. Alan B. Miller
President
UHS of Delaware, Inc.
367 South Gulph Road
King of Prussia, PA 19406

Dear Alan:

The Board of Trustees of Universal Health Realty Income Trust, at their December 2, 2002 meeting, authorized the renewal of the current Advisory Agreement between the Trust and UHS of Delaware, Inc. ("Agreement") upon the same terms and conditions.

This letter constitutes the Trust's offer to renew the Agreement, until December 31, 2003, upon the same terms and conditions. Please acknowledge UHS of Delaware's acceptance of this offer by signing in the space provided below and returning one copy of this letter to me.

Sincerely,

Kirk E. Gorman
President and Secretary

cc: Warren J. Nimetz, Esq.
Charles Boyle

Agreed to and Accepted:

UHS OF DELAWARE, INC.

By: _____

Alan B. Miller, President

EXHIBIT 10.7

UNIVERSAL HEALTH SERVICES, INC.

EXECUTIVE RETIREMENT INCOME PLAN

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UNIVERSAL HEALTH SERVICES, INC.
EXECUTIVE RETIREMENT INCOME PLAN

The Universal Health Services, Inc. Executive Retirement Income Plan is hereby established effective as of January 1, 1993 for the purpose of providing a retirement income benefit to certain executive employees of Universal Health Services, Inc. and its affiliates.

ARTICLE 1

DEFINITIONS

Wherever used herein, the masculine includes the feminine, the singular includes the plural, and the following terms have the following meanings unless a different meaning is clearly required by the context.

1.1. "Administrator" means the Compensation Committee of the Board or, if no such committee is serving, the Board.

1.2. "Affiliate" means any entity (whether or not incorporated) which, by reason of its relationship with the Company, is required to be aggregated with the Company under Section 414(b) or 414(c) of the Internal Revenue Code of 1986.

1.3. "Beneficiary" means any person entitled to receive benefit payments under the Plan upon a Participant's death. A Participant may designate a Beneficiary on such forms and in such manner as may be prescribed or permitted by the Administrator. If no designated Beneficiary shall survive a deceased Participant, then the Beneficiary shall be deemed to be the deceased Participant's surviving spouse, or, if none, the deceased Participant's estate.

1.4. "Board" means the Board of Directors of the Company.

1.5. "Company" means Universal Health Services, Inc.

1.6. "Compensation" means all regular cash compensation (including commissions) paid by the Company or an Affiliate to an Employee which is required to be reported as wages on the Employee's Form W-2, exclusive of bonuses, commissions and other irregular payments.

1.7. "Employee" means an officer or other executive employee of the Company or an Affiliate.

1.8. "Participant" means an Employee participating in the Plan in accordance with the provisions hereof.

1.9. "Plan" means the retirement income plan as set forth herein and any amendments thereto.

ARTICLE 2

PARTICIPATION

2.1. Eligibility to Participate. An Employee will be eligible to become a Participant in the Plan if the Employee (a) has completed at least ten years of active employment with the Company or an Affiliate, and (b) is a member of "a select group of management or other highly compensated employees" of the Company or an Affiliate within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974.

2.2. Participation. The Board, in its sole and absolute discretion, will determine whether and when an eligible Employee will become a Participant in the Plan. An eligible Employee who becomes a Participant in the Plan and who, by reason of a failure to qualify under Section 2.01(b), subsequently ceases to be an eligible Employee before his or her retirement hereunder will thereupon cease to be a Participant and will not be entitled to a benefit hereunder unless he or she again

becomes a Participant and retire with a right to receive a benefit. A former Participant who again becomes an eligible Employee will not again become a Participant unless and until the Board decides to re-admit him or her to the Plan.

ARTICLE 3

RETIREMENT INCOME BENEFIT

3.1. Basic Retirement Benefit. A Participant who retires on or after the date he or she reaches age 62 will be entitled to receive a retirement income benefit consisting of 60 consecutive monthly installment payments, each in an amount equal to 3% multiplied by the product of (a) and (b), where -

(a) is the Participant's average monthly Compensation for the three calendar years preceding the year of his or her retirement; and

(b) is the number of full years (not to exceed ten) of the Participant's active employment as an Employee following the first ten years of the Participant's employment with the Company or an Affiliate.

The amount of a Participant's retirement benefit under this Plan will be reduced by the value (as determined by the Administrator) of the vested retirement pension, if any, earned by the Participant under a tax-qualified defined benefit plan adopted and maintained by the Company or an Affiliate. Payment of the monthly installments will begin as of the first day of the month next following the Participant's retirement date. If the Participant dies before 60 monthly installments have been paid, then payment of the monthly installments will be made to the Participant's Beneficiary until a total of 60 monthly installments have been paid.

3.2. Optional Forms of Payment. At least three months before a Participant's retirement income payments are to begin, the Participant may request that his or her Plan benefit be paid in one of the optional forms set forth below or such other form as may be permitted by the Administrator in its sole and absolute discretion, each of which optional forms shall be equal in value to the basic form described in Section 3.01. The amount(s) payable under each optional form will be determined on the basis of an interest rate equal to the immediate annuity rate declared by Pension Benefit Guaranty Corporation for determining lump sum distributions from terminating pension plans as of the first day of the calendar quarter preceding the Participant's retirement, or such lower rate (but not less than 5%) as may be declared by the Board. The Administrator, in its sole and absolute discretion, will determine whether to grant a Participant's request to receive his or her Plan benefit pursuant to an optional form of payment.

(a) Lump Sum. Under this option, an amount equal to the present value of the Participant's retirement income payments will be paid to the Participant in a single sum payment.

(b) Ten Year Payout. Under this option, payment of reduced equal monthly installments will be made to the Participant for a period of ten years, beginning as of the first day of the month next following the Participant's retirement date. If the Participant dies before 120 monthly installments have been paid, then payment of the monthly installments will be made to the Participant's Beneficiary until a total of 120 monthly installments have been paid.

3.3. Suspension of Benefits. If a Participant retires and begins receiving retirement income under the Plan, and if he or she resumes employment with the

Company or an Affiliate, then the Board, in its sole and absolute discretion, may direct that the Plan retirement payments be suspended during the period of such re-employment. If the payment of benefits is suspended in accordance with this Section, then such payment will resume no later than the first day of the month following the month in which the Employee again retires from active employment with the Company and its Affiliates.

3.4. Death. No death benefit is payable with respect to a Participant who dies before reaching age 62. If a Participant dies on or after the date he or she reaches age 62 and before his or her retirement, then the Participant's Beneficiary will be entitled to receive the monthly installments which would have been payable to the Beneficiary if the Participant retired on the day preceding his or her death, became entitled to receive a 60-month payout under Section 3.01, and died immediately before the first payment. If a Participant dies after payment of his retirement income has begun and before such payment is completed, then the Participant's Beneficiary will be entitled to receive the remaining unpaid monthly installments which would have been payable to the Participant under the form of payment in effect at the Participant's death. Notwithstanding anything to the contrary contained herein, the Board, in its sole and absolute discretion, may elect to pay the death benefit payable to a deceased i Participant's Beneficiary in the form of a single sum payment equal to the present value of the installment payments which would have otherwise been payable to the Beneficiary.

3.5. Termination of Covered Employment Before Age 62. If a Participant ceases to be an eligible Employee or if a Participant's employment with the Company and its Affiliates is terminated for any reason before the Participant reaches age 62,

then, unless the Board, in its sole and absolute discretion, determines otherwise, no retirement income will be payable to the Participant under the Plan.

3.6. Forfeiture for Cause. Notwithstanding anything to the contrary contained herein, if a Participant's employment is terminated by the Company or an Affiliate for cause on or after the date the Participant reaches age 62, or if a Participant engages in competition with the Company or its Affiliates after reaching age 62 and before the payment in full of the Participant's retirement benefit, then the Board, in its sole and absolute discretion, may declare that the Participant's interest in the Plan be forfeited and, in such event, no further amounts will be paid or payable under the Plan to or with respect to such Participant. For the purposes hereof, the term "cause" means (a) failure by an Employee to satisfactorily perform his/her duties of employment with the Company or an Affiliate, (b) commission by an Employee of a crime involving moral turpitude, or (c) an Employee's dishonesty or engaging in conduct that is materially injurious to the Company or an Affiliate, all as determined by the Board in its sole discretion.

ARTICLE 4

ADMINISTRATION OF PLAN

4.1. Administrator. The Plan will be administered by the Compensation I Committee of the Board or, if no such committee is serving, by the Board.

4.2. Powers of Administrator. The Administrator will administer the Plan and will have complete control in the administration thereof. In exercising any of its discretionary powers with respect to the administration of the Plan, the Administrator will act in a uniform and non-discriminatory manner. The Administrator will have all

powers which are reasonably necessary to carry out its responsibilities under the Plan including, without limitation, the power to construe the Plan and to determine all questions, which may arise thereunder. The decision of the Administrator as to any disputed question arising hereunder, including questions of construction, interpretation and administration, shall be final and conclusive on all persons. All benefit payments shall be made upon and in accordance with the instructions of the Administrator. The Administrator may adopt such rules and regulations as it deems necessary or appropriate for the conduct of its affairs. The Administrator may employ such accountants, consultants, counsel and other agents as it deems necessary or desirable in order to carry out the provisions of the Plan Decisions and directions of the Administrator may be communicated to any person who is to receive such decision or direction by a document signed by anyone or more members of the administrative committee or the Board, as the case may be (or persons other than members so authorized), and such decision or direction may be relied upon by its recipient as being the decision or direction of the Administrator.

4.3. Records and Reports. The Administrator shall keep records of its proceedings and acts and shall keep or cause to be kept all such books of account, records and other data as may be necessary in connection with the performance of its functions hereunder.

4.4. Expenses. All expenses incurred in connection with the administration of the Plan shall be paid by the Company.

4.5. Indemnification. The Company shall indemnify each member of the Board, and any of its (or an Affiliate's) employees to whom a responsibility with respect to the Plan is allocated or delegated from and against all liabilities, costs and expenses, including counsel fees, amounts paid in settlement and amounts of judgments, fines or

penalties, incurred or imposed upon such person in connection with any claim, action, suit or proceeding, whether civil, criminal, administrative or investigative, arising by reason of or in connection with acts or omissions in his or her capacity hereunder, provided that such act or omission is not the result of willful neglect or fraud.

4.6. Claim for Benefits. A disputed claim for benefits under the Plan may be made to the Administrator or its designee in writing. If the claim contains insufficient information, then the claimant will be given notice of additional material or information necessary to perfect the claim, and the claim will be deemed filed when such additional information is received. Within 60 days after a claim is received, the claimant will be notified whether the claim is granted or denied in whole or in part. If the claim is I denied in whole or in part~ the written notification will set forth, in a manner calculated to be understood by the claimant, (a) the specific reason or reasons for the denial, (b) specific reference to pertinent provisions of the Plan on which the denial is based, and (3) an explanation of the Plan's claim review procedure. Failure to give notification pursuant to this Section within 60 days after receipt of the claim will be deemed a denial of the claim for the purpose of proceeding to the review stage.

4.7. Review of Denied Claims. If a claim is denied in whole or in part, then within 60 days after written notification of the denial (or after the claim is deemed I denied), the claimant may file with the Administrator a written request for a review of the claim. A claimant who timely files a request for review of his or her claim may review pertinent documents and may submit a written statement in support of the claim. If the claimant so requests in a timely-filed application for review, the Administrator will schedule a conference with the claimant (and/or an authorized representative). Such conference will be held at the offices of the Company within 60 days after the Administrator receives the claimant's written request for review. The

Administrator will communicate its decision in writing to the claimant within 60 days after the written request for review is filed or within 30 days after the conference, whichever is later, setting forth in a manner calculated to be understood by the claimant the specific reasons for its decision and the pertinent provisions of the Plan on which the decision is based.

ARTICLE 5

AMENDMENTS AND TERMINATION

5.1. Company May Amend Plan. The Company reserves the right, by action of the Board at any time and from time to time, to modify or amend this Plan in whole, or in part; provided, however, that no amendment will decrease or eliminate the vested benefits accrued by a Participant or Beneficiary prior to the time such action is taken.

5.2. Termination. The Company reserves the right to terminate the Plan in whole or in part, provided, however, that the vested benefits accrued by a Participant or Beneficiary prior to such termination shall not be reduced or eliminated.

ARTICLE 6

MISCELLANEOUS

6.1. No Rights Conferred. Nothing herein will be deemed to give any individual any right to be retained in the employ of the Company or an Affiliate or any other rights in the future other than as herein specifically set forth. Except as otherwise specifically required herein or by law, no Participant, Beneficiary or other

person will be entitled to inspect the books, records, reports, financial statements or tax returns of the Company or an Affiliate.

6.2. Funding and Payment of Plan Benefits. The Company and its Affiliates shall be responsible for the payment of retirement benefit earned hereunder, except that no Affiliate shall be responsible for the payment of Plan benefits earned by or with respect to persons who are not its Employees. The obligation of the Company and its Affiliates to pay benefits under the Plan shall be unsecured and unfunded, and neither the Company nor any Affiliate shall have an obligation to segregate assets, make investments (insurance contracts or otherwise) or otherwise fund its payment obligations under the Plan. Any assets acquired or investments made by the Company or an Affiliate in contemplation of the satisfaction of the liabilities of the Plan shall be the sole property of the Company or such Affiliate, as the case may be, subject to the claims of its creditors generally, and no Employee or Beneficiary shall have any interest therein other than as a creditor. Notwithstanding anything to the contrary herein contained, the Company may establish and fund one or more trusts for the purpose of paying benefits earned under the Plan. It is contemplated that any such trust will be deemed to be owned by the Company for federal income tax purposes and will not otherwise change the status of Plan Participants and their Beneficiaries as unsecured creditors with respect to the payment of benefits payable under the Plan. It is intended that the Plan and any related trust will be unfunded for tax purposes and for purposes of Title I of ERISA, and the Plan and any such trust will be administered and interpreted accordingly. Any final payment or distribution to a Participant or Beneficiary will be in full satisfaction of all claims which he or she may have against the Company, an Affiliate, the Board and any fiduciary of the Plan. The Administrator may require a Participant or Beneficiary to execute a receipt and a general release of

any and all such claims upon a final payment or distribution, or a receipt and/or release to the extent of any partial payment or distribution.

6.3. Spendthrift Provision. Except to the extent required by law, no benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt to anticipate, alienate, sell, transfer, assign, encumber or charge the same shall be void. No such benefit shall be in any way liable for or subject to the debts, contracts, liabilities, engagements or torts of any person entitled to those benefits.

6.4. Payment to Minors or Incompetents. If any person to whom a benefit is payable hereunder is an infant or if the Administrator determines that any person to whom such benefit is payable is incompetent by reason of a physical or mental 1 disability, the Administrator may cause the payments becoming due to such person to be made to another for his or her benefit without responsibility to see to the application of such payments.

6.5. Withholding. Any and all payments made under the Plan will be subject to the withholding requirements of applicable law.

6.6. Severability. If any provision of the Plan or the application of such provision to any person or circumstance is held invalid, the remainder of the Plan (and the application of such provision to any person or circumstance other than the person or circumstance to which it is held invalid) will not be affected thereby.

UNIVERSAL HEALTH SERVICES, INC.

Date: September 23, 1993 By: /s/ Kirk E. Gorman

EXHIBIT 10.17

UNIVERSAL HEALTH SERVICES, INC.
EXECUTIVE INCENTIVE PLAN

1. *Purpose*. The purpose of the Plan is to foster the ability of the Company and its Affiliates to attract, retain and motivate highly qualified senior management and other executive officers of the Company and its Affiliates through the payment of performance-based incentive compensation.

2. *Definitions*. Wherever used herein, the masculine includes the feminine, the singular includes the plural, and the following terms have the following meanings unless a different meaning is clearly required by the context.

(a) "Affiliate" means any entity (whether or not incorporated) which is required to be aggregated with the Company under Section 414(b) or 414(c) of the Internal Revenue Code of 1986, as amended (the "Code").

(b) "Board" means the Board of Directors of the Company.

(c) "Committee" means the administrative committee appointed by the Board in accordance with the provisions hereof.

(d) "Company" means Universal Health Services, Inc.

(e) "Compensation" means the base salary of a Participant for a calendar year, determined as of the beginning of the calendar year and without regard to increases, if any, made during the calendar year.

(f) "Net Income" means the net income of the Company or of an Affiliate, division, hospital or other unit, as determined by the Committee.

(g) “Participant” means, with respect to any calendar year, an individual who is designated by the Committee as eligible to receive an incentive award for the year upon achievement of the applicable performance conditions.

(h) “Plan” means the incentive compensation plan as set forth herein and any amendments thereto.

(i) “Return on Capital” means Net Income divided by the quarterly average net capital of the Company or of an Affiliate, division, hospital or other unit, as determined by the Committee.

3. *Administration.* The Plan will be administered by a committee consisting of at least two directors appointed by and serving at the pleasure of the Board. Each member of the Committee will be a “non-employee director” within the meaning and for the purposes of Rule 16b-3 issued by the Securities and Exchange Commission under the Securities Exchange Act of 1934, and an “outside director” within the meaning of Section 162(m) of the Code. Subject to the provisions of the Plan, the Committee, acting in its sole and absolute discretion, will have full power and authority to interpret, construe and apply the provisions of the Plan and to take such action as may be necessary or desirable in order to carry out the provisions of the Plan. A majority of the members of the Committee will constitute a quorum. The Committee may act by the vote of a majority of its members present at a meeting at which there is a quorum or by unanimous written consent. The Committee will keep a record of its proceedings and acts and will keep or cause to be kept such books and records as may be necessary in connection with the proper administration of the Plan. The Company shall indemnify and hold harmless each member of the Committee and any employee or director of the Company or an Affiliate to whom

any duty or power relating to the administration or interpretation of the Plan is delegated from and against any loss, cost, liability (including any sum paid in settlement of a claim with the approval of the Board), damage and expense (including legal and other expenses incident thereto) arising out of or incurred in connection with the Plan, unless and except to the extent attributable to such person's fraud or wilful misconduct.

4. *Eligibility*. Annual incentive compensation may be awarded under the Plan to any person who is a member of the senior management of the Company and to other executive officers of the Company or an Affiliate. Subject to the provisions hereof, the Committee will select the persons to whom incentive compensation may be awarded for any calendar year and will fix the terms and conditions of each such award.

5. *Annual Performance Bonus*. The amount of a Participant's incentive award for a year will be equal to the Participant's base bonus amount (described in (a) below) multiplied by the applicable performance factor (described in (b) below).

(a) *Base Bonus Amount*. For each calendar year, the Committee will establish the amount of bonus ("base bonus amount") which will be payable to a Participant if the performance goals for the year are met. A Participants' base bonus amount will be expressed as a percentage of the Participant's Compensation, which percentage may vary from year to year and may be different for each Participant or class of Participants, all as determined by the Committee.

(b) *Applicable Performance Factor*. For each calendar year, the Committee will establish performance targets based upon the following business criteria: increase in Net Income from the preceding calendar year, and Return on Capital. As to any Participant or class

of Participants, the performance targets may be based upon either or both of such criteria and on company-wide figures, local or divisional figures, or a combination thereof. If a Participant's performance targets for a calendar year are achieved, then the Participant will be entitled to receive an incentive payment equal to 100% of the Participant's base bonus amount for the year. No incentive compensation will be payable for a year if neither performance target is achieved, and a performance bonus (which may be greater than 100% of a Participant's base bonus amount) may be payable if either or both performance targets are exceeded for a calendar year, all in accordance with the Company performance matrix established by the Committee.

(c) *Performance Conditions to be Pre-Established*. Performance targets, as well as percentage factors used to determine base bonus amounts and performance percentages with respect to any calendar year will be established in writing by the Committee before the beginning of that calendar year; provided, however, that the Committee may establish any one or more of said factors during the calendar year if and to the extent permitted by the Treasury Department pursuant to Section 162(m) of the Code.

(d) *Limitation on Amount of Incentive Awards.* Notwithstanding anything to the contrary contained herein, the maximum incentive award which any Participant may earn hereunder for any calendar year shall not exceed $5 million.

6. *Calculation and Payment of Performance Bonus*. As soon as practicable after the end of each calendar year, the Committee, based upon the Company's financial statements for the year, will determine the amount, if any, of the incentive compensation payable to each Participant for that calendar year. A Participant's incentive award for a calendar year will be paid to the Participant at such time as the Committee determines; provided, however, that the

Committee certifies in writing prior to payment that the performance goals were in fact satisified, and provided further that the Committee may establish a procedure pursuant to which payment of all or a portion of a Participant's incentive award for a calendar year will be deferred. Unless the Committee determines otherwise, no incentive award will be payable to a Participant with respect to a calendar year if the Participant's employment with the Company and its Affiliates terminates at any time prior to the payment thereof.

7. *Amendment or Termination*. The Board may amend or terminate the Plan at any time. The Plan supersedes the executive incentive plan heretofore maintained by the Company.

8. *Term of the Plan*. The Plan will become effective as of January 1, 2002, subject to approval by the stockholders of the Company. Unless sooner terminated by the Board, the Plan will continue through the date of the first meeting of stockholders of the Company (or any adjournment thereof) in 2007.

9. *Governing Law*. The Plan and each award made under the Plan shall be governed by the laws of the State of Delaware, without regard to its principles of conflicts of law, it being understood, however, that annual incentive compensation awarded and paid under the Plan are intended to constitute "performance-based compensation" within the meaning of Section 162(m) of the Code, and the provisions of the Plan and any award made hereunder will be interpreted and construed accordingly.

10. *No Rights Conferred*. Nothing contained herein will be deemed to give any person any right to receive an incentive compensation award under the Plan or to be retained in the employ or service of the Company or any Affiliate or interfere with the right of the Company or any Affiliate to terminate the employment or other service of any person for any reason.

11. *Decisions of Board or Committee to be Final*. Any decision or determination made by the Board pursuant to the provisions hereof and, except to the extent rights or powers under the Plan are reserved specifically to the discretion of the Board, all decisions and determinations of the Committee hereunder, shall be final and binding.

EXHIBIT 10.22

UNIVERSAL HEALTH SERVICES, INC.

ACTION BY UNANIMOUS CONSENT
IN WRITING IN LIEU OF A MEETING
OF THE BOARD OF DIRECTORS

July 1, 1997

Re: Adoption of Nonqualified Deferred Compensation Plan for UHS Non-Employee Directors

The undersigned, being all of the directors of Universal Health Services, Inc., a Delaware corporation (the "Company"), do hereby unanimously consent in writing, pursuant to Section 141(f) of the Delaware General Corporation Law and the Bylaws of the Company, to the following resolutions by unanimous written consent without a meeting and with the same force and effect as if they were duly adopted at a regularly convened meeting:

WHEREAS, certain non-employee directors have rendered, and will undoubtedly continue to render, valuable service and contribute to the success of the Company's business;

WHEREAS, the Company desires to establish a nonqualified deferred compensation plan for the benefit of such directors to enable them to defer payment on all or a portion of their annual retainer from the Company;

WHEREAS, the Company desires to provide such directors with incentives to continue their valuable service to the Company, in part, by allowing such directors the opportunity to select Company stock performance as a measure of investment performance for the period while payment of amounts are deferred; and

WHEREAS, the Company has prepared and finalized the Universal Health Services, Inc. Deferred Compensation Plan for UHS Board of Directors (the "Plan"), a specimen copy of which is attached hereto and incorporated herein by reference.

NOW THEREFORE, BE IT RESOLVED that the Universal Health Services, Inc. Deferred Compensation Plan for UHS Board of Directors, a specimen copy of which is attached hereto and incorporated herein by reference, shall be, and it hereby is, adopted and approved by the Company effective July 1, 1997 in accordance with its terms and conditions;

BE IT FURTHER RESOLVED that the proper officers of the Company shall be, and they hereby are, authorized and

directed to sign and execute the Plan on behalf of the Company;

BE IT FURTHER RESOLVED that the fixed interest rate to be used for 1997 under the Plan shall be, and it hereby is, set at six percent (6%);

BE IT FURTHER RESOLVED that the Company's Chief Financial Officer and/or its Vice President/Controller shall be, and they hereby are, authorized and directed for each year hereafter to set the fixed interest rate to be used in accordance with the Plan; and

BE IT FURTHER RESOLVED that all appropriate Company personnel shall be, and they hereby are, authorized and instructed to take all other necessary and appropriate actions to properly administer the Plan and otherwise fulfill the purpose and objectives of these Resolutions.

IN WITNESS WHEREOF, the undersigned have executed this Unanimous Consent Action indicating their consent to the action taken in the above resolutions as of the date first set forth above.

DIRECTORS

/s/ Alan B. Miller	/s/ Martin Meyerson
Alan B. Miller	Martin Meyerson
/s/ Sidney Miller	/s/ John H. Herrell
Sidney Miller	John H. Herrell
/s/ Anthony Pantaleoni	
Anthony Pantaleoni	Paul R. Verkuil
/s/ Robert H. Hotz	
Robert H. Hotz	

UNIVERSAL HEALTH SERVICES, INC.

DEFERRED COMPENSATION PLAN FOR UHS BOARD OF DIRECTORS

Article 1
Purpose

This Deferred Compensation Plan for UHS Board of Directors (the "Plan") is established and maintained in order to enable Universal Health Services, Inc. (the "Company") to attract and retain qualified persons to serve as Directors, to provide Directors with an opportunity to defer some or all of their Retainer as a means of saving for retirement or other purposes, and to align the interests of the Directors with those of the Company's shareholders by providing such Directors with an opportunity to have the investment performance of all or some portion of their Retainer deferred under the Plan measured by the Company's stock performance and financial progress.

Article 2
Effective Date

The Plan is subject to the approval of the Company's Board at its next regular meeting or, to the extent permitted by law, by unanimous consent action without a meeting. Subject to the receipt of such approval, the Plan shall be effective as of July 1, 1997.

Article 3
Definitions

Whenever used in the Plan, the following terms shall have the respective meanings set forth below:

3.1 "Account" means, with respect to each Participant, the Participant's separate individual account established and maintained for the exclusive purpose of accounting for the Participant's deferred Retainer and the investment performance thereon determined in accordance with Article 5. A Participant's Account will be comprised of Stock Units, dollar credits or a combination of both.

3.2 "Beneficiary" means, with respect to each Participant, the recipient or recipients designated by the Participant in writing in accordance with Article 7.

3.3 "Board" means the Board of Directors of the Company.

3.4 "Common Stock" means the Class B common stock of the Company listed and traded on the New York Stock Exchange.

3.5 "Company" means Universal Health Services, Inc., a Delaware corporation, and any successor thereto. Any provisions of this Plan which authorize the Company to make a determination or to take other steps shall require action by the appropriate members of the Board or, if the Board specifically so delegates, by officers, employees or other Company personnel.

3.6 "Director" means an individual who is a member of the Board, but excluding those who are employees of the Company or any Subsidiary.

3.7 "Market Value" means the closing price of the Common Stock, as published in The Wall Street Journal report of the New York Stock Exchange - Composite Transactions on the date in question or, if the Common Stock shall not have been traded on such date or if the New York Stock Exchange is closed on such date, then the first day prior thereto on which the Common Stock was so traded. If the Common Stock ceases to be traded on the New York Stock Exchange, Market Value shall be determined by the Company on the basis of quotes of other publicly traded ask prices or, if none, such other reasonable method as the Company may determine.

3.8 "Participant" means any Director who has made an election to defer payment of all or a portion of such person's Retainer.

3.9 "Retainer" means the designated annual cash retainer, currently paid coincident with the date of each Board meeting for Directors as established from time to time as annual compensation for services rendered, but exclusive of reimbursements for expenses incurred in performance of services as a Director.

3.10 "Stock Unit" means a unit of investment measure, derived by reference to the Market Value of a share of Common Stock and credited to a Participant's Account under this Plan. No certificates shall be issued with respect to such Stock Units, but the Company shall maintain only a bookkeeping Account in the name of the Participant with respect to the Stock Units.

3.11 "Subsidiary" means any corporation in which the Company owns directly or indirectly through its Subsidiaries, at least 50 percent of the total combined voting power of all classes of stock, or any other entity (including, but not limited to, partnerships and joint ventures) in which the Company owns at least 50 percent of the combined equity thereof.

3.12 "Termination" means retirement from the Board or termination of service as a Director for disability, resignation or any reason (other than death).

Article 4
Election to Defer Retainer

4.1 Election to Defer

For calendar years after 1997, a Director may elect to defer receipt of all or a specified portion of the Director's Retainer for a year by filing with the Company, on or before December 31st of the preceding year, a written election to defer. Subject to the terms and conditions of the Plan, the written election to defer shall specify: (i) the amount or percentage of the Retainer to be deferred, (ii) the future date or time when deferred amounts should be paid, (iii) the method of distribution to be used when deferred amounts are paid, (iv) the investment measure to be used for crediting earnings on deferred amounts during the period while held pursuant to the Plan, and (v) such other information as the Company may consider necessary or appropriate. If a Director elects to defer less than all of his or her Retainer for the year, the deferred portion will be pro-rated against each periodic payment of the Retainer made during the year.

Notwithstanding the foregoing:

(a) a Director may choose to participate in the Plan beginning with the Retainer payable on or after July 1, 1997, by filing an election to defer on or before July 15, 1997; and

(b) a Director (i) who fills a vacancy on the Company's Board in mid-year and who was not a Director on the preceding December 31st, or (ii) whose term of office otherwise does not begin until mid-year, may choose to participate in the Plan beginning with the Retainer payable for such year and after the date he or she assumes the position of Director by filing an election to defer within 30 days after the date he or she first assumes the position of Director.

4.2 Period of Deferral

A Participant shall specify a period of deferral at the time of his or her election to defer under Section 4.1. A period of deferral represents the time upon which deferred amounts will first begin to be paid and shall be the earlier of: (i) the Participant's Termination or (ii) a fixed and determinable date specified by the Participant, which shall be no later than the date the Participant attains age 70 and which shall be no sooner than two years from the date of the election to defer. A Participant's choice of a period of deferral for deferred amounts for one year may be different than the period of deferral specified for deferred amounts in earlier years, but once a period of deferral has been specified by a Participant for a deferred amount, the Participant may not change or modify the period of deferral for such deferred amount.

4.3 Revocation of Election

An election to defer pursuant to Section 4.1 may not be revoked or modified (except as otherwise stated herein) with respect to the Retainer payable for a calendar year or portion of a calendar year for which such election is effective. An election to defer filed with the Company shall remain in effect for the Retainer payable in all subsequent calendar years until such election is timely terminated or modified by a Participant.

An effective election to defer may be terminated or modified for any subsequent calendar year by the filing of another written election to defer (or a written revocation of elections), on or before December 31st of the calendar year preceding the calendar year for which such modification or termination is to be effective. Any termination or modification of an election to defer with respect to the Retainer payable in subsequent calendar years shall not alter or change the election for deferred amounts under the Plan made prior to the effective date of such termination or modification.

Article 5
Investment Measures on Deferred Amounts

5.1 Choice of Investment Measures

When a Participant elects to defer under Section 4.1 for a calendar year, the Participant shall specify the investment measure to be used for purposes of crediting investment performance on deferred amounts during the entire period of deferral. Participants may choose between only two methods of investment measure consisting of: (i) a fixed rate of return credited on an annual basis in accordance with Section 5.2; or (ii) the investment performance of Company Common Stock in accordance with Section 5.3.

A Participant may not divide or split the deferred amount for a year between the two available methods of investment measure. A Participant's choice of a method of investment measure for deferred amounts for one year may be different than the method of investment measure specified for deferred amounts in earlier years, but once a Participant has selected a method of investment measure for the deferred amounts for a year, the method of investment measure used for such amounts will remain in effect for the entire period of deferral and may not be changed by the Participant for such deferred amounts.

5.2 Fixed Rate of Return

If a Participant specifies a fixed rate of return as the measure of investment performance for deferred amounts, compound interest shall be credited on an annual

basis as of December 31st of each year or, as applicable, on a pro-rated basis as of the last day preceding the date of payment of deferred amounts. For the first year when deferred amounts are made, interest shall be credited only from the date the Retainer would have been paid, but for the election to defer, through the end of the year.

The interest rate shall be redetermined and set annually by the Company's Chief Financial Officer and/or the Company's Vice President/Controller, in their sole discretion. The determination of the annual interest rate to be used for the next calendar year shall be made no later than 45 days before the first day of such calendar year and shall be communicated in writing to the Board by such date. Once an annual interest rate has been set for a year, it shall remain in effect for the entire year and may not be changed or modified until the following year. The interest rate applicable for the period from July 1, 1997 through December 31, 1997 shall be six percent (6%).

5.3 Common Stock Performance

(a) If a Participant specifies investment performance of Company Common Stock as the measure of investment performance for deferred amounts, the Participant's Account shall be credited with a number of Stock Units for this purpose. The number of Stock Units to be credited, on each date the deferred amount of the Retainer would otherwise have been payable to the Participant but for the election to defer, shall be equal to the whole and fractional Stock Units, computed to three decimal places, obtained by dividing (i) the dollar value of the deferred amount of the Retainer which otherwise would have been payable to the Participant but for his or her election to defer by (ii) the Market Value of the Common Stock on the first day of the month in which the payment of the deferred amount of the Retainer would have occurred but for the election to defer.

(b) On each dividend payment date, if any, with respect to the Common Stock, the Account of a Participant, with Stock Units held pursuant to this Section, shall be credited with an additional number of whole and fractional Stock Units, computed to three decimal places, equal to (i) the product of the dividend per share of Common Stock then payable, multiplied by the number of Stock Units then credited to such Account; divided by (ii) the Market Value of the Common Stock on the first day of the month which includes the dividend payment date.

(c) The number of Stock Units credited to a Participant's Account pursuant to this Section shall be appropriately adjusted for any change in the Common Stock by reason of any merger, reclassification, consolidation, recapitalization, stock dividend, stock split or any other similar change affecting the Common Stock.

Article 6
Payment of Deferred Amounts

6.1 Manner of Payment Upon Termination or Fixed Date

(a) In accordance with the Participant's written election to defer as provided in Section 4.1, the relevant portion of the accumulated value of a Participant's Account shall be paid to the Participant in the manner elected by the Participant either as (i) a lump sum distribution within 30 days after, as applicable, the Participant's Termination or the specified date for the period of deferral, or (ii) in up to 10 annual installments commencing within 30 days after, as applicable, the Participant's Termination or the specified date for the period of deferral. Once chosen, a Participant may not change or modify his or her election of the manner of payment. Payment shall be made only in cash. Stock Units shall be converted to cash on the basis of the Market Value of the Common Stock on the first day of the month in which the payment is made.

(b) If all or some portion of a Participant's Account is paid in two or more annual installments:

(i) installments ordinarily will be paid on or about the same date each year, but shall be paid on a date no more than a period of 30 days following the anniversary date of the initial installment;

(ii) any such payment in installments which has begun at any time before a Participant's Termination shall continue to be made without change or alteration, unless the Company, in its sole discretion, determines that the Participant's Termination was involuntary and chooses to accelerate the payment of any remaining installments by paying them in a single cash lump sum payment;

(iii) investment performance shall continue to be credited on the unpaid portion of the Account in accordance with Article 5;

(iv) that portion of any installment representing Stock Units will not be converted in accordance with subsection (a) above to a cash equivalent until such time when the value of the Stock Units will actually be paid to the Participant; and

(v) the amount to be distributed in any one installment shall be equal to the total value of the Account on the first day of the month that includes the payment date of the installment divided by the number of installments remaining (including such installment).

6.2 Manner of Payment Upon Death

Notwithstanding the Participant's election, if a Participant dies while an Account is held for the Participant, such Account will be paid to the Beneficiary in a lump sum in cash within 90 days from the date of the Participant's death. Upon written application by the Beneficiary (including, if applicable, the legal representative for the Participant's estate) filed within 45 days of the Participant's death, the lump sum payment may be deferred for a reasonable period of time beyond 90 days for good cause, if the Company consents in writing to such deferral.

6.3 Determination

Any cash payments of Stock Units shall be calculated on the basis of the Market Value of the Common Stock on the first day of the month which includes the relevant date for payment or other calculation, irrespective of installment payment dates or the date of the Participant's death, as the case may be.

6.4 Small Payment Amounts

Notwithstanding any elections made by a Participant or anything else in this Plan to the contrary, the Company shall pay to a Participant (or, if appropriate, his or her Beneficiary) in a single cash lump sum that portion of an Account which first becomes payable at the end of a period of deferral if, at that time, the amount of such portion is $10,000 or less.

6.5 Financial Hardship

Notwithstanding any elections made by a Participant or anything else in this Plan to the contrary, the Company shall pay all or some portion of a Participant's Account if the Participant establishes to the satisfaction of the Company that the Participant has developed an immediate and heavy financial need. The amount of a distribution under this Section on account of an immediate and heavy financial need shall not exceed the amount required to relieve the financial need. No distribution under this Section shall be made to the extent the immediate and heavy financial need can be satisfied from other financial resources of the Participant (including liquidation of assets, cessation of contributions to tax-favored plans or distributions or non-taxable loans from retirement plans) or through reimbursement or compensation by insurance or otherwise.

For purposes of this Section, an "immediate and heavy financial need" shall exist only if the Company determines the need to arise from payments related to medical expenses for the Participant or his or her dependents; needed to prevent eviction from the Participant's principal residence; or needed to prevent foreclosure on the mortgage of the Participant's principal residence.

The Company may require the Participant to provide such written statements, documentation and other evidence as the Company in its discretion deems necessary or appropriate to establish immediate and heavy financial need. Distributions on account of immediate and heavy financial need shall be made first from that portion of the Account, if any, where the investment measure is a fixed rate of return, and then from the remaining portion, if any, where the investment measure is Company Common Stock performance. Stock Units shall be converted to cash on the basis of the Market Value of the Common Stock on the first day of the month in which a distribution is made. No Stock Unit may be converted to cash if held for less than six months. A Participant who receives a distribution on account of an immediate and heavy financial need shall cease to have deferred amounts made under the Plan for the year in which the distribution is made and may not make an election to defer for the following year.

Article 7
Beneficiary Designation

Each Participant shall be entitled to designate a Beneficiary or Beneficiaries (which may be an entity other than a natural person) who, following the Participant's death, will be entitled to receive any payments to be made under Section 6.2. At any time, and from time to time, any designation may be changed or canceled by the Participant without the consent of any Beneficiary. Any designation, change, or cancellation must be by written notice filed with the Company before the Participant's date of death and shall not be effective until received by the Company.

Payment shall be made in accordance with the last unrevoked written designation of Beneficiary that has been signed by the Participant and delivered by the Participant to the Company prior to the Participant's death. If the Participant designates more than one Beneficiary, any payments under Section 6.2 to the Beneficiaries shall be made in equal shares unless the Participant has expressly designated otherwise, in which case the payments shall be made in the proportions designated by the Participant. If no Beneficiary has been named by the Participant or if all Beneficiaries predecease the Participant, payment shall be made to the Participant's estate.

Article 8
Transferability Restrictions

The Plan shall not in any manner be liable for, or subject to, the debts and liabilities of any Participant or Beneficiary. No payee may assign any payment due such party under the Plan. No benefits at any time payable under the Plan, or interests in the Plan, shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, attachment, garnishment, levy, execution, or other legal or equitable process, or encumbrance of any kind, including without limitation by reason of any qualified or other domestic relations order.

Article 9
Funding Policy

The Company's obligations under the Plan shall be totally unfunded so that the Company or any Subsidiary is under merely a contractual duty to make payments when due under the Plan. The promise to pay shall not be represented by notes and shall not be secured in any way. The Company, in its sole discretion, may take action to establish a separate trust or trusts for purposes of holding assets set aside in connection with the Plan, but the Plan and obligations thereunder shall at all times remain unfunded.

Article 10
Change of Control

Notwithstanding any provision of this Plan to the contrary, if a "Change of Control" (as defined below) of the Company occurs, the accumulated value of a Participant's Account on the day immediately preceding the Change of Control will be paid in a cash lump sum to the Participant not later than 15 days after the date of the Change of Control. For this purpose, the cash equivalent of Stock Units in the Account shall be determined by the higher of (a) the average of the Market Value of the Common Stock for the last 20 trading days immediately prior to such Change of Control or (b) if the Change of Control of the Company occurs as a result of a tender or exchange offer or consummation of a corporate transaction, then the highest price paid per share of Common Stock pursuant thereto. Any consideration (other than cash) forming a part or all of the consideration for the Common Stock to be paid pursuant to the applicable transaction shall be valued at the valuation price thereon reasonably determined by the Board (other than those who are Participants) serving on the day immediately before the Change of Control.

In addition, if a Change of Control of the Company occurs, the Company shall reimburse a Participant for the legal fees and expenses incurred if the Participant is required to seek to obtain or enforce any right to distribution or any other right under this Plan. In the event that it is determined that such Participant is properly entitled to a cash distribution hereunder, such Participant shall also be entitled to interest thereon at the prime rate of interest as published in The Wall Street Journal plus two percent from the date such distribution should have been made to and including the date it is made. Notwithstanding any provisions of this Plan to the contrary, the provisions of this Plan may not be amended by an amendment effected at any time within three years following a Change of Control.

For purposes of this Plan, Change of Control shall mean: the purchase or other acquisition by any person, entity or group of persons, within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934 ("Act"), or any comparable successor provisions, of beneficial ownership (within the meaning of Rule 13d-3

promulgated under the Act) of 30 percent or more of either the outstanding shares of common stock or the combined voting power of the Company's then outstanding voting securities entitled to vote generally, or the approval by the stockholders of the Company of a reorganization, merger, or consolidation, in each case, with respect to which persons who were stockholders of the Company immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than 50 percent of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated Company's then outstanding securities, or a liquidation or dissolution of the Company or of the sale of all or substantially all of the Company's assets. The Board (other than those who are Participants) shall have the duty to make a determination as to those events which give rise to a Change of Control and shall do so prior to the occurrence of a Change of Control.

Article 11
Administration

The Plan shall be administered by the Company. The Company shall have authority to interpret and construe the Plan, and to prescribe, amend and rescind rules and regulations relating to the administration of the Plan, and all such interpretations, rules and regulations shall be conclusive and binding on all Directors and Participants. The Company may employ agents, attorneys, accountants, or other persons (who also may be employees of a Subsidiary) and allocate or delegate to them powers, rights, and duties, all as the Company in its discretion may consider necessary or advisable to properly carry out the administration of the Plan.

Upon the request of a Participant, and not more frequent than once each calendar year, the Company shall provide the Participant with a written statement showing the total value of the Participant's Account as of a date selected by the Company, the portion of the total Account allocated to each of the investment measures, the date on which payment of deferred amounts are expected to be made, the manner in which payments will be made and such other information as the Company in its sole discretion deems necessary or appropriate.

Article 12
Amendment and Termination

The Company, by resolution duly adopted by the Board, shall have the right, authority and power to alter, amend, modify, revoke, or terminate the Plan; except as provided in Article 10; and provided further, that no amendment or termination of the Plan shall adversely affect the rights of any Participant with respect to any Stock Units or other amounts credited such Participant's Account, unless the Participant shall consent thereto in writing.

Article 13
Miscellaneous

13.1 No Right to Continue as a Director

Nothing in this Plan shall be construed as conferring upon a Participant any right to continue as a member of the Board.

13.2 No Interest as a Shareholder

Stock Units do not give a Participant any voting, dividend or other rights whatsoever with respect to shares of Common Stock.

13.3 No Right to Corporate Assets

Nothing in this Plan shall be construed as giving the Participant, the Participant's designated Beneficiaries or any other person any equity or interest of any kind in the assets of the Company or any Subsidiary or creating a trust of any kind or a fiduciary relationship of any kind between the Company or any Subsidiary and any person. As to any claim for payments due under the provisions of the Plan, a Participant, Beneficiary and any other persons having a claim for payments shall be mere unsecured creditors of the Company or any Subsidiary.

13.4 Tax Withholding; Other Tax Consequences

A Director shall be solely responsible for determining and providing for the timely payment of federal, state and local income and other taxes incident to deferred amounts of the Retainer pursuant to the Plan. The Company is authorized to make such arrangements and establish such procedures as they determine may be necessary or appropriate for any reporting or withholding obligations they may have under the tax laws.

13.5 Payment to Legal Representative for Participant

In the event the Company shall find that a Participant is unable to care for his or her affairs because of illness or accident, the Company may direct that any payment due the Participant be paid to the Participant's duly appointed legal representative, and any such payment so made shall be a complete discharge of the liabilities of the Plan.

13.6 No Limit on Further Corporate Action

Nothing contained in the Plan shall be construed so as to prevent the Company or any Subsidiary from taking any corporate action which is deemed by the Company or any Subsidiary to be appropriate or in its best interest.

13.7 Governing Law

The Plan shall be construed and administered according to the laws of the Commonwealth of Pennsylvania to the extent that those laws are not preempted by the laws of the United States of America.

13.8 Headings

The headings of articles, sections, subsections, paragraphs or other parts of the Plan are for convenience of reference only and do not define, limit, construe, or otherwise affect its contents.

IN WITNESS WHEREOF, the undersigned has signed and dated this Plan on the 17th day of September, 1997.

UNIVERSAL HEALTH SERVICES, INC.

By: /s/ Alan Miller

Date: 9/17/97

FIRST AMENDMENT

TO THE

UNIVERSAL HEALTH SERVICES, INC.
DEFERRED COMPENSATION PLAN
FOR UHS BOARD OF DIRECTORS

Pursuant to the authority granted in Article 12 of the Universal Health Services, Inc. Deferred Compensation Plan for UHS Board of Directors ("Plan"), Universal Health Services, Inc. ("Company") hereby amends the Plan as follows:

Effective July 1, 2000

1. Section 5.1 is revised in its entirety to read as follows:

"5.1 Choice of Investment Measures

(a) When a Participant elects to defer under Section 4.1 for a calendar year the Participant shall specify the investment measure to be used for purposes of crediting investment performance on such deferred amounts. Participants may choose between only two methods of investment measure consisting of: (i) a fixed rate of return credited on an annual basis in accordance with Section 5.2; or (ii) the investment performance of Company Common Stock in accordance with Section 5.3.

(b) A Participant may not divide or split the deferred amount for a year between the two available methods of investment measure. A Participant's choice of a method of investment measure for deferred amounts for one year may be different than the method of investment measure specified for deferred amounts in earlier years.

(c) Within a reasonable time prior to each December 31 and June 30, a Participant may redesignate the investment measure to be used (such redesignation to be effective the next following January 1 and July 1, respectively) with respect to all amounts deferred in calendar years prior to the calendar year which contains the effective date, and subject to the requirement that upon any such redesignation, one hundred percent of such previously deferred amounts shall be subject to the same single investment measure."

2. Section 5.2 is amended by adding a new sentence at the end thereof to read as follows:

"Notwithstanding the foregoing, if a Participant makes a redesignation of investment measures under Section 5.1(c) such that deferred amounts are subject to the investment measure under this Section for less than a full year, compound interest shall be credited on a prorated basis as of the last day prior to the effective date of the redesignation."

3. The first sentence of Section 5.3(a) is revised to read as follows:

"If a Participant specifies investment performance of Company Common Stock as the measure of investment performance in connection with his or her election to defer under Section 4.1 for a calendar year, the Participant's Account shall be credited with a number of Stock Units for this purpose."

4. Sections 5.3(b) and 5.3(c) are renumbered as Sections 5.3(c) and 5.3(d), respectively, and a new section 5.3(b) shall be added to the Plan, to read as follows:

"(b) If a Participant redesignates the measure of investment performance of amounts previously deferred (pursuant to Section 5.1(c) above) into Company Common Stock, the portion of a Participant's Account which does not at that time specify Company Common Stock as the investment measure and which is attributable to amounts previously deferred shall be credited with a number of Stock Units for this purpose. As of the effective date of any such redesignation, the total number of Stock Units with respect to that portion of the Participant's Account that does not at that time specify Company Common Stock as the investment measure shall be equal to the whole and fractional Stock Units, computed to three decimal places, obtained by dividing (i) the accumulated value (as of the effective date of such redesignation) of such portion of the Participant's Account attributable to amounts previously deferred by (ii) the Market Value of the Common Stock as of the effective date of such redesignation."

5. All other provisions of the Plan not mentioned herein shall remain unchanged.

IN WITNESS WHEREOF, the Company has executed this First Amendment on this 19th day of September, 2000.

UNIVERSAL HEALTH SERVICES, INC.

By: /s/ Alan B. Miller

Title: President, CEO

EXHIBIT 10.29

UNIVERSAL HEALTH SERVICES, INC.

SUPPLEMENTAL DEFERRED COMPENSATION PLAN

(Amended and Restated Effective January 1, 2002)

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UNIVERSAL HEALTH SERVICES, INC.
SUPPLEMENTAL DEFERRED COMPENSATION PLAN

This is the Universal Health Services, Inc. Supplemental Deferred Compensation Plan, as amended and restated effective January 1, 2002 ("Plan"), an unfunded plan established and maintained primarily for the benefit of eligible management or highly compensated employment of Universal Health Services, Inc. and those of its affiliates that have adopted the Plan.

ARTICLE I

DEFINITIONS

1.1. "Administrator" means the individual or committee appointed to administer the Plan pursuant to Article VI.

1.2. "Base Compensation" means a Participant's base pay, salary and wages, including Deferral Contributions made hereunder and any pretax elective deferrals to any Employer sponsored retirement savings plan or cafeteria plan, qualified pursuant to section 401(k) or section 125 of the Code, but excluding bonuses and overtime pay, all other Employer contributions to benefit plans and all other forms of remuneration or reimbursement.

1.3. "Beneficiary" means the person, persons, trust or other entity, designated by written revocable designation filed with the Administrator by the Participant to receive payments in the event of the Participant's death before all amounts under the Plan have been paid to him. If the Participant fails to make a valid Beneficiary election, the Beneficiary shall be the Participant's estate.

1.4. "Benefit Distribution Date" means a future date selected by a Participant, within guidelines established by the Administrator, on which the Participant shall be entitled to a supplemental benefit pursuant to this Plan equal to all or a designated portion of the balance of his Fixed Period Account.

1.5. "Bonus Compensation" means any cash remuneration paid to a Participant, excluding Base Compensation, as a specified incentive bonus or award.

1.6. "Compensation" means Base Compensation and Bonus Compensation in the aggregate.

1.7. "Code" means the Internal Revenue Code of 1986, as amended.

1.8. "Deferral Agreement" means a written agreement between a Participant and the Employer, whereby the Participant agrees to defer a portion of his Compensation and the Employer agrees to provide benefits pursuant to the provisions of this Plan.

1.9. "Deferral Contribution" means the Plan contribution described in Section 3.1.

1.10. "Deferred Benefit Accounts" means the Retirement Account, Education Account and Fixed Period Account.

1.11. "Determination Date" means March 31, June 30, September 30 and December 31 of each calendar year and, for each Participant, his date of death, Retirement, or other termination of employment (or later date selected by the Administrator in accordance with Section 5.5).

1.12. "Disability" means a physical or mental condition of a Participant, resulting from bodily injury, disease or mental disorder, which renders him incapable of continuing his usual and customary employment with the Employer. The disability of a Participant shall be determined by a licensed physician chosen by the Administrator. The determination standards shall be applied uniformly to all Participants.

1.13. "Early Retirement Age" means the later of the date on which the Participant attains age 55 or the date he is credited with 10 Years of Service.

1.14. "Education Account" means a Deferred Benefit Account established pursuant to Section 4.1.

1.15. "Effective Date" means July 1, 1988. This amendment and restatement is effective January 1, 2002.

1.16. "Eligible Student" means an individual who is:

1.16.1. a child, grandchild or other dependent of the Participant;

1.16.2. living at any time during the Enrollment Period;

1.16.3. so designated by the Participant in writing to the Administrator at such time as the Participant elects to establish an Education Account in accordance with Sections 4.1 and 4.2; and

1.16.4. under age 18 when first designated by the Participant in accordance with the above Section 1.16.3.

1.17. "Eligible Employee" means any employee of the Employer whose Base Compensation for the succeeding Plan Year is expected to be in excess of $80,000, and who has been approved by the Chief Executive Officer (CEO) of the Sponsor or any other employee who

has been approved by the CEO. The $80,000 threshold set forth above shall be adjusted annually for increases in the cost-of-living in accordance with sections 414(q) and 415(d) of the Code, effective as of January 1 of the calendar year such increase is promulgated and applicable to the Plan Year which begins with such calendar year.

1.18. "Employer" means the Sponsor, UHS of Delaware, Inc., any other business organization which succeeds either, and any other business entity which adopts this Plan with consent of the Sponsor's Board of Directors.

1.19. "Enrollment Period" means the calendar month which commences two months prior to each Plan Year.

1.20. "Fixed Period Account" means a Deferred Benefit Account established pursuant to Section 4.1.

1.21. "Investment Fund" or "Fund" means the investments described in Section 4.4, which shall serve as the means to measure value increases or decreases with respect to a Participant's Deferred Benefit Accounts.

1.22. "Investment Category" means the class of investments from which the Employer shall offer the Investment Funds.

1.23. "Normal Retirement Age" means that date on which the Participant attains age 65.

1.24. "Participant" means any Eligible Employee who has met the conditions for participation as set forth in Article II, and commenced participation in this Plan.

1.25. "Plan" means the Universal Health Services, Inc. Supplemental Deferred Compensation Plan as described in this instrument, as amended from time to time.

1.26. "Plan Year" means the 12 consecutive month period beginning on each January 1 and ending on each December 31 after the Effective Date.

1.27. "Retirement" means any severance from full-time employment by a Participant after attaining his Normal Retirement Age or Early Retirement Age.

1.28. "Retirement Account" means a Deferred Benefit Account established pursuant to Section 4.1.

1.29. "Sponsor" means Universal Health Services, Inc.

1.30. "Year of Service" means a 12 consecutive month period of employment with the Employer, measured from the date an employee is initially hired by the Employer and anniversaries thereof; provided that no credit shall be given for partial years. In the event the

employee has a break in employment, subsequent Years of Service shall be measured from the employee's date of rehire and anniversaries thereof.

ARTICLE II

PARTICIPATION IN THE PLAN

2.1. Commencement of Participation. Each employee who is an Eligible Employee at any time during the Enrollment Period for any Plan Year shall be eligible to become a Participant in the Plan as of the first day of such Plan Year. Notwithstanding the foregoing, each employee who first becomes an Eligible Employee at any time during the course of a Plan Year shall be eligible to become a Participant with respect to such Plan Year on the first day of the month coincident with or next following to the date on which he is designated as an Eligible Employee.

2.2. Procedure For and Effect of Admission. An Eligible Employee shall become a Participant in the Plan by completing such forms and providing such data as are reasonably required by the Employer as a condition of such participation. By becoming a Participant, each individual shall for all purposes be deemed conclusively to have assented to the provisions of the Plan and all amendments hereto.

2.3. Cessation of Participation. A Participant shall cease to be eligible to participate upon the earlier of:

2.3.1. The date on which the Plan terminates, or

2.3.2. The date on which he ceases to be an Eligible Employee.

Notwithstanding the foregoing, a former Eligible Employee who is absent by reason of an authorized leave of absence shall remain a Participant for so long as such authorized absence continues, but shall be ineligible during such absence for further contributions to his Deferred Benefits Accounts, as described in Article III. Further notwithstanding the foregoing, a former active Participant will be deemed a Participant, for all purposes with respect to the Plan except contributions as described in Article III, as long as such former active Participant retains a benefit pursuant to the terms of Article V.

2.4. Recommencement of Participation. Conditioned upon prior approval of the Sponsor's Chief Executive Officer, a former active Participant shall be eligible to recommence participation on the first day of the month coincident with or next following the date as of which he is again designated as an Eligible Employee.

ARTICLE III

PLAN CONTRIBUTIONS

3.1. Deferral Contribution. Each Eligible Employee may authorize the Employer to reduce his Base Compensation by any fixed dollar amount and/or his Bonus Compensation by a fixed percentage, and to have a corresponding amount credited to his Deferred Benefit Accounts, in accordance with Sections 3.2.4 and 4.2. Each Eligible Employee shall file a Deferral Agreement with the Administrator prior to the date on which the Participant performs services with respect to which the Compensation deferred hereunder is earned.

3.2. Rules Governing Deferral Contributions.

3.2.1. Throughout any one Plan Year, a Participant may not defer from Base Compensation less than $2,000 (excepting Plan Years in which the Participant elects not to defer any portion of his Base Compensation).

3.2.2. Throughout any one Plan Year, a Participant may not defer more than 25% of his Base Compensation or 50% of his Bonus Compensation.

3.2.3. Throughout any one Plan Year, a Participant may not allocate less than $1,000 to any one Fixed Period subaccount (excepting Plan Years in which the Participant elects not to allocate any portion of his Deferral Contribution to a Fixed period subaccount).

3.2.4. The amount of Compensation that a Participant elects to defer shall be credited to the Participant's Deferred Benefit Accounts during each Plan Year on or about that date on which the Participant is paid the nondeferred portion of the Compensation which is the source of the deferral.

3.2.5. An election to defer Compensation pursuant to the Plan is irrevocable and shall continue until the earlier of the Employee's termination of employment or the end of the Plan Year for which the deferral is effective.

3.3. Suspension of Contributions. Notwithstanding the foregoing, a Participant may not make contributions to the Plan during:

3.3.1. The remainder of the Plan Year in which an "Emergency Withdrawal" is granted in accordance with Section 5.6 and during the Plan Year next following such Plan Year; or

3.3.2. Any period for which contributions must be suspended in accordance with regulation section 1.401(k)-1(d)(2)(iii)(B)(3) of the Code, as a condition of the Participant's receipt of a hardship withdrawal from any plan of the Employer which includes a qualified cash or deferred arrangement under section 401(k) of the Code.

3.3.3. Subject to Sections 3.3.1 and 3.3.2, a Participant who is granted an unpaid leave of absence of more than 30 days shall have his contributions to the Plan suspended. In the event the Participant returns from the leave as an Eligible Employee within the same Plan Year, he shall again be subject to the terms of the Deferral Agreement as in effect as of the date the leave began, and shall not be eligible to increase his contribution to take into account any amounts not contributed to the Plan due to the leave.

3.4. Discretionary Contributions. The Employer may, in its sole discretion, credit any amount to the Deferred Benefit Accounts of any Participant as it shall determine for any Plan Year, provided the Participant is an employee of the Employer as of the last day of the Plan Year of reference. Any such Discretionary Contributions shall be allocated to the Participant Deferred Benefit Account in the same proportions as were elected by the Participant for Deferral Contributions for the Plan Year to which the Discretionary Contributions are attributed. The Discretionary Contributions shall be measured, for hypothetical investment purposes, according to the future contribution elections of the Participant.

If the Deferred Benefit Account to which the Discretionary Contribution is to be allocated has been liquidated or the Participant does not currently have a Deferred Benefit Account, the Discretionary Contributions will be allocated to a Retirement Account established for the Participant.

3.5. Vesting. A Participant's interest in his Deferral Contributions under the Plan shall be fully vested and nonforfeitable at all times. A Participant's interest in the Employer's Discretionary Contributions under the Plan shall be vested in accordance with the following schedule based on the Participant's full Years of Service.

Years of Service	Vested Percentage
Less than 1 full year	0%
1 full year	25%
2 full years	50%
3 full years	75%
4 or more full years	100%

That portion of the Participant's Deferred Benefit Accounts which is not vested at the date the Participant severs service with the Employer shall be forfeited and shall be used to reduce the Employer's Discretionary Contributions in accordance with Section 3.4.

ARTICLE IV

PARTICIPANT'S ACCOUNTS

4.1. Establishment of Accounts. The following Deferred Benefit Accounts shall be established with respect to each Participant:

4.1.1. Retirement Account,

4.1.2. Education Account,

4.1.3. Fixed Period Account.

All contributions on behalf of a Participant shall be credited to the appropriate Deferred Benefit Accounts, in accordance with Section 4.2.

4.2. Benefit Allocation. Each Eligible Employee shall submit to the Administrator before the close of the Enrollment Period for each Plan Year, a written statement specifying the Eligible Employee's allocation of anticipated contributions with respect to his Deferred Benefit Accounts.

4.3. Irrevocable Allocation. Once an Eligible Employee has elected to have anticipated contributions allocated under the Plan and the Plan Year has begun, he may not modify, alter, amend or revoke such allocation election. Notwithstanding the foregoing, a Participant may, prior to the commencement of a new Plan Year, elect to modify, alter, amend or revoke his future allocation to his Deferred Benefit Accounts to the extent the Administrator shall provide, effective the first day of such Plan Year.

4.4. Directed Adjustment of Deferred Benefit Accounts. Except as provided herein, a Participant may direct that his Deferred Benefit Accounts be valued, in accordance with Section 4.6, as if the Accounts were invested in one or more of the Investment Funds designated by the Sponsor for such purpose. Such Funds shall be selected by the Sponsor from the following Investment Categories

Investment Categories	Type of Investment
Fixed Fund(s)	Income fund(s) offering a fixed rate of return on an annual basis.
Equity Fund(s)	Common stock fund(s) with an objective of long-term growth of capital and income through investment in a portfolio of publicly traded securities.

Money Market Fund(s)	Money market fund(s) seeking to obtain a high level of current income with the preservation of capital liquidity by investing in investment-grade U.S. Government and agency securities.
REIT Fund	Shares of the Universal Health Realty Income Trust

A Participant shall direct by written instruction delivered to the Administrator his selection if the available Investment Categories. A Participant may select one or more Investment Categories in multiples that shall be determined by the Employer and may make a separate selection with respect to each Account. Notwithstanding the foregoing, effective on and after May 1, 2002 any Participant who is an officer or director of Universal Health Realty Income Trust or who is otherwise determined by the Sponsor to be subject to the reporting or short swing profit liability provisions of Section 16 of the Securities Exchange Act of 1934, as amended (the "Act"), (i) shall not be eligible to direct that any future contributions on his behalf be invested in the REIT Fund, and (ii) shall, with respect to an election as to any amount credited to the REIT Fund on his behalf prior to May 1, 2002, comply with the provisions of Section 16 of such Act.

The frequency of such elections shall be determined by the Employer. An election shall be effective following timely delivery to the Employer and shall apply to new contributions and/or previous accumulations as the Participant specifies. The Employer shall provide Participants with timely notice of the investment multiples and frequency of change elections which are in effect for the period of reference.

The Employer may from time to time change the Investment Funds, provided such change is evidenced by a written resolution executed by the Employer's Board of Directors and Participants are given timely notice of such change.

4.5. Administration of Investments. The notional income and investment gain or loss with respect to contributions made to the Deferred Benefit Accounts on behalf of a Participation shall continue to be determined in the manner selected by the Participant, pursuant to Section 4.4, until a new designation is filed with the Administrator. If any Participant fails to file a designation, he shall be deemed to have designated the Fixed Fund. A designation filed by a Participant changing his Investment Funds shall apply to future contributions and/or amounts already accumulated in his Deferred Benefit Accounts. A Participant may change his investment selection four times throughout the course of each Plan Year.

4.6. Valuation of Deferred Benefit Accounts. The Deferred Benefit Accounts of each Participant shall be valued daily based upon the performance of the Investment Fund(s) selected by the Participant. Such valuation shall reflect the hypothetical net asset value expressed per share of the designated Investment Fund(s). The fair market value of an Investment Fund shall be determined by the Administrator. It shall represent the fair market

value of all securities or other property credited to the respective Fund, plus cash and accrued earnings, less accrued expenses and proper charges against the Fund. Each Deferred Benefit Account shall be valued separately. A valuation summary shall be prepared on each Determination Date.

4.7. Suballocation Within the Deferred Benefit Accounts.

4.7.1. In the event a Participant shall allocate a portion of his anticipated contributions to his Education Account, the Participant may further allocate among subaccounts on behalf of any Eligible Student. A Participant's election pursuant to Section 4.4 shall apply uniformly to each subaccount.

4.7.2. In the event a Participant shall allocate a portion of his anticipated contributions to his fixed Period Account, the Participant may further allocate among subaccounts differentiated by Benefit Distribution Dates. Notwithstanding the foregoing, at any point in reference, a Participant may not have more than two such subaccounts pursuant to this Section 4.7.2. A Participant's election pursuant to Section 4.4 shall apply uniformly to each subaccount.

4.8. Investment Obligation of the Employer. Benefits are payable as they become due irrespective of any actual investments the Employer may make to meet its obligations. Neither the Employer, nor any trustee (in the event the Sponsor elects to use a grantor trust to accumulate funds), shall be obligated to purchase or maintain any asset, and any reference to investments or Investment Funds is solely for the purpose of computing the value of benefits. To the extent a Participant or any other person acquires a right to receive payments from the Employer under the Plan, such right shall be no greater than the right of any unsecured creditor of the Employer. Neither the Plan nor any action taken pursuant to the terms of the Plan shall be considered to create a fiduciary relationship between the Employer and the Participants or any other persons, or to establish a trust in which the assets are beyond the claims of any unsecured creditor of the Employer.

ARTICLE V

BENEFITS

5.1. Retirement Account.

5.1.1. If a Participant terminates employment for any reason, including death, the Employer shall pay him a benefit in the form determined under Section 5.1.2 based on the value of his Retirement Account, commencing as soon as administratively possible after the date notice of such termination is received by the Administrator, but in no event more than 30 days following receipt of such notice. If the Participant is deceased, the benefit shall be paid to this Beneficiary.

5.1.2. Form of Payment.

5.1.2.1. Upon Retirement, Death or Disability.

(a) The normal form of payment of benefits hereunder shall be a benefit paid in 10 equal annual installments.

(b) Provided that such election is made in the manner and at the time described in Section 5.1.4, a Participant entitled to a benefit hereunder may elect:

(i) annual or less frequent equal installments over a period not to exceed 10 years; or

(ii) a single lump sum.

If any Beneficiary receiving installment payments hereunder dies, leaving no further Beneficiary designated by the Participant, any remaining balance shall be paid to that deceased Beneficiary's estate in a single sum.

5.1.2.2. Notwithstanding any provision to the contrary, if the Participant's Retirement Account has a value less than $20,000 at the time benefits are to commence, then the Participant's benefit shall be paid as a lump sum as soon as administratively feasible following the Participant's termination.

5.1.3. Determination of Benefits.

5.1.3.1. In the event that the Participant's benefits are distributed in the form described under Section 5.1.2.2 or he elects to have them distributed in the form described under Section 5.1.2.1(b)(ii), he shall receive a single lump sum equal to the total vested value of his Account determined as of his Determination Date.

5.1.3.2. In the event that the Participant's benefits are distributed in the form described under Section 5.1.2.1(a) or he elects to have them distributed in the form described under Section 5.1.2.1(b)(i):

(a) the amount of the first payment shall be determined, subject to Section 5.1.3.3, by multiplying the vested value of the Participant's Account as of his Determination Date by a fraction,

(i) the denominator of which equals the number of years over which the benefits are to be paid; and

(ii) the numerator of which is one.

(b) The amounts of the payments for each succeeding year shall be determined, subject to Section 5.1.3.3, by multiplying the vested value of the Participant's Account as of the applicable anniversary of his Determination Date by a fraction,

(i) the denominator of which equals the number of remaining years over which the benefits are to be paid; and

(ii) the numerator of which is one.

5.1.3.3. In the event that the Participant elects to have his benefits distributed in a manner less frequently than annually, the amount of each payment to be distributed during the Plan Year shall be determined by multiplying the amount determined in Section 5.1.3.2(a) or (b), whichever is applicable, by a fraction,

(a) the denominator of which equals the number of payments which are to be made during the Plan Year; and

(b) the numerator of which is one

5.1.4. Election of Form of Benefit Payment.

5.1.4.1. A Participant shall elect the form in which his benefits are payable in accordance with Section 5.1.4.2

(a) Separate elections may be made for termination of employment as the result of Retirement, death or Disability.

(b) Such elections must be made:

(i) in the case of individuals who first became Participants prior to April 1, 1995, no later than December 31, 1995; or

(ii) in the case of individuals who become Participants as of the Plan Year beginning on January 1, 1996 or any subsequent Plan Year, when the Participant makes his initial election to participate in the Plan in accordance with Articles II and III.

5.1.4.2. Notwithstanding the foregoing, the Participant may elect to change the form(s) elected in accordance with Section 5.1.4.1, provided such new election is made at least one full calendar year prior to the Participant's Retirement.

5.1.4.3. Any election made pursuant to this Article shall be made on forms and in the manner prescribed by the Administrator and shall be irrevocable, except as provided in Section 5.1.4.2.

5.2. Education Account.

5.2.1. If a Participant remains continuously employed by the Employer until January 1 of the calendar year in which an Eligible Student designated by the Participate attains a Determination Age, the Employer shall pay to the Participant a supplemental benefit, as soon as administratively feasible, determined as follows:

Eligible Student's Determination Age	Percentage of Eligible Student's Subaccount
18	25%
19	33-1/3%
20	50%
21	100%

5.2.2. If a Participant should terminate his employment for any reason while having a balance in his Education Account, the balance shall be transferred to his Retirement Account and distributed to the Participant, or Beneficiary if applicable, in accordance with Section 5.1.

5.2.3. Notwithstanding any provision to the contrary, if, on the January 1 of the calendar year in which an Eligible Student designated by a Participant attains age 18, the Eligible Student's subaccount has a balance of less than $10,000, such balance shall be paid to the Participant as soon as administratively feasible.

5.3. Fixed Period Account.

5.3.1. If a Participant remains continuously employed by the Employer until a designated Benefit Distribution Date, the Employer shall pay to the Participant a

supplemental benefit, equal to the balance of the Participant's subaccount which has been earmarked with respect to such Benefit Distribution Date.

5.3.2. If a Participant should terminate his employment for any reason while having a balance in his Fixed Period Account, the balance shall be transferred to his Retirement Account and distributed to the Participant, or Beneficiary, if applicable, in accordance with Section 5.1.

5.4. Tax Withholding. To the extent required by the law in effect at the time contributions are made pursuant to Article III or benefits are distributed pursuant to this Article V, the Employer or its agent shall withhold any taxes required by the federal or any state or local government from other amounts due the Participant, in the case of contributions, or payments made hereunder, in the case of benefits.

5.5. Determination Date Adjustment. For the purposes of this Article V, the value of a Participant's Deferred Benefit Account shall be determined as of that date on which the event occurs which gives rise to the distribution or as of a date reasonably subsequent thereto, selected by the Administrator, as may be necessary to facilitate the administration of the Plan. Throughout the period ending on such later Determination Date, a Participant's Deferred Benefit Account shall continue to be valued in accordance with Section 4.6.

5.6. Emergency Withdrawals.

A Participant may apply in writing to the Administrator for a withdrawal against his Accounts at any time. The withdrawal shall only be allowed at the discretion of the Administrator and for purposes which constitute an "Unforeseeable Emergency".

5.6.1. For purposes of this Section, "Unforeseeable Emergency" means a severe financial hardship to the Participant resulting from:

5.6.1.1. a sudden and unexpected illness or accident of the Participant or of one of the Participant's dependents, as defined in section 152(a) of the Code;

5.6.1.2. loss of the Participant's property due to casualty; or

5.6.1.3. other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

Circumstances that shall not be deemed to meet the above "Unforeseeable Emergency" definition shall include, but not to be limited to, the need to pay for the post-secondary education of any children of the Participant.

5.6.2. The circumstances that shall constitute an Unforeseeable Emergency shall depend upon the facts of each request, but, in any case, payment may not be made to the extent that such hardship is or may be relieved:

5.6.2.1. through the reimbursement or compensation by insurance or otherwise;

5.6.2.2. by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship; or

5.6.2.3. by cessation of deferrals under the UHS Retirement Savings Plan or any other retirement plan maintained by the Employer.

5.6.3. Withdrawals of amounts because of an Unforeseeable Emergency shall not exceed the lesser of:

5.6.3.1. the amount required to meet the need created by the hardship, including a reasonable amount for taxes; or

5.6.3.2. the aggregate balance of the Participant's Accounts.

5.6.4. To the extent a withdrawal shall be permitted pursuant to this Section 5.6, the Participant's Accounts shall be correspondingly reduced in the following order:

5.6.4.1. the Fixed Period Account;

5.6.4.2. the Education Account; and

5.6.4.3. the Retirement Account.

ARTICLE VI

ADMINISTRATION

6.1. Appointment of Administrator. The Sponsor shall appoint an Administrator. The Administrator may be removed by the Sponsor at any time and he may resign at any time by submitting his resignation in writing to the Sponsor. A new Administrator shall be appointed as soon as possible in the event that the Administrator is removed or resigns from his position. Any person so appointed shall signify his acceptance by filing a written acceptance with the Sponsor.

6.2. Administrator's Responsibilities. The Administrator is responsible for the day to day administration of the Plan. He may appoint other persons or entities to perform any of his fiduciary functions. Such appointment shall be made and accepted by the appointee in writing and shall be effective upon the written approval of the Sponsor. The Administrator and

any such appointee may employ advisors and other persons necessary or convenient to help him carry out his duties, including his fiduciary duties. The Administrator shall have the right to remove any such appointee from his position. Any person, group of persons or entity may serve in more than one fiduciary capacity.

6.3. Records and Accounts. The Administrator shall maintain or shall cause to be maintained accurate and detailed records and accounts of Participant and of their rights under the Plan and of all notional investments, receipts, disbursements and other transactions. Such accounts, books and records relating thereto shall be open at all reasonable times to inspection and audit by the Sponsor, another Employer and by persons designated thereby.

6.4. Administrator's Specific Powers and Duties. In addition to any powers, rights and duties set forth elsewhere in the Plan, the Administrator shall have the following powers and duties:

6.4.1. To adopt such rules and regulations consistent with the provisions of the Plan;

6.4.2. To enforce the Plan in accordance with its terms and any rules and regulations he establishes;

6.4.3. To maintain records concerning the Plan sufficient to prepare reports, returns and other information required by the Plan or by law;

6.4.4. To exclusively construe and interpret the Plan and to exclusively resolve all questions arising under the Plan;

6.4.5. To direct the Employer to pay benefits under the Plan, and to give such other directions and instructions as may be necessary for the proper administration of the Plan; and

6.4.6. To be responsible for the preparation, filing and disclosure on behalf of the Plan of such documents and reports as are required by any applicable federal or state law.

6.5. Employer's Responsibility to Administrator. The Employer shall furnish the Administrator such data and information as he may reasonably require. The records of the Employer shall be determinative of each Participant's period of employment, termination of employment and the reason therefore, leave of absence, reemployment, personal data, compensation and Deferral Contributions. Participants and their Beneficiaries shall furnish to the Administrator such evidence, data, or information, and execute such documents as the Administrator reasonably requests.

6.6. Liability. Neither the Sponsor, the Administrator nor any Employer shall be liable to any person for any action taken or omitted in connection with the administration of

this Plan unless attributable to his own fraud or willful misconduct; nor shall the Sponsor or any other Employer be liable to any person for such action unless attributable to fraud or willful misconduct on the part of any director, officer or employee of the Sponsor or Employer.

6.7. Procedure to Claim Benefits. Pursuant to section 503 of the Employee Retirement Income Security Act of 1974, each Participant or Beneficiary shall claim any benefit to which he is entitled under this Plan by a written notification to the Administrator. If a claim is denied, it must be denied within a reasonable period of time, and be contained in a written notice stating the following:

6.7.1. The specific reason for the denial;

6.7.2. Specific reference to the Plan provision on which the denial is based;

6.7.3. Description of additional information necessary for the claimant to present his claim, if any, and an explanation of why such material is necessary; and

6.7.4. An explanation of the Plan's claim review procedure.

The claimant will have 60 days to request a review of the denial by the Administrator, who will provide a full and fair review. The request for review must be written and submitted to the same person who handles initial claims. The claimant may review pertinent documents, and he may submit issues and comments in writing.

The decision by the Administrator with respect to the review must be given within 60 days after receipt of the request, unless special circumstances require an extension (such as for a hearing). In no event shall the decision be delayed beyond 120 days after receipt of the request for review. The decision shall be written in a manner calculated to be understood by the claimant, and it shall include specific reasons and refer to specific Plan provisions as to its effect.

In order for the Administrator to operate and administer the claims procedures in a timely and efficient manner, any Participant or Beneficiary whose appeal with respect to a claim for benefits has been denied and who desires to begin a legal action with respect to such claim, must begin such action in a court of competent jurisdiction within 90 days after receipt of notification of such denial, and shall not be permitted to introduce any new facts or legal theories that were not presented during the claim review process. Failure to file such action by the prescribed time shall result in the permanent denial of such claim.

ARTICLE VII

AMENDMENT AND TERMINATION

7.1. Plan Amendment. The Plan may be amended in whole or in part by the Sponsor at any time. Notice of any such amendment shall be given in writing to each Participant and each Beneficiary of a deceased Participant.

7.2. No Premature Distribution. Subject to Section 7.3, no amendment hereto shall permit amounts accumulated pursuant to the Plan prior to the amendment to be paid to a Participant or Beneficiary prior to the time he would otherwise be entitled thereto.

7.3. Termination of the Plan. The Sponsor reserves the right to terminate the Plan and/or the Deferral Agreement pertaining to the Participant at any time prior to the commencement of benefits but only in the event that the Sponsor, in its sole discretion, shall determine that the economics of the Plan have been adversely and materially affected by a change in the tax laws, other government action or other event beyond the control of the Participant and the Sponsor or that the termination of the Plan is otherwise in the best interest of the Sponsor and each other Employer. In the event of any such termination, the Employer shall pay a benefit to the Participant or the Beneficiary of any deceased Participant, in lieu of other benefits hereunder, equal to the then full value of Participant's Deferred Benefit Accounts determined pursuant to Section 4.6

ARTICLE VIII

ASSIGNMENT

8.1. No Assignment Permitted. No Participant, Beneficiary or heir shall have any right to commute, sell, transfer, assign or otherwise convey the right to receive any payment under the terms of this Plan. Any such attempted assignment shall be considered null and void.

ARTICLE IX

MISCELLANEOUS

9.1. Supplemental Benefits. The benefits provided for the Participants under this Plan are in addition to benefits provided by any other plan or program of the Employer and, except as otherwise expressly provided for herein, the benefits of this Plan shall supplement and shall not supersede any plan or agreement between the Employer and any Participant or any provisions contained herein.

9.2. Governing Law. The Plan shall be governed and construed under the laws of the Commonwealth of Pennsylvania.

9.3. Jurisdiction. The courts of the Commonwealth of Pennsylvania shall have exclusive jurisdiction in any or all actions arising under this Plan.

9.4. Binding Terms. The terms of this Plan shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, executors, administrators and successors.

9.5. Spendthrift Provision. The interest of any Participant or any Beneficiary receiving payments hereunder shall not be subject to anticipation, nor to voluntary or involuntary alienation, until distribution is actually made.

9.6. Headings. All headings preceding the text of the several Articles hereof are inserted solely for reference and shall not constitute a part of this Plan, or affect its meaning, construction or effect.

9.7. Rules of Interpretation. Where the context admits, words in the masculine gender shall include the feminine and neuter genders, and the singular shall include the plural.

IN WITNESS WHEREOF, the Sponsor has caused this amendment and restatement of the Plan to be executed on its behalf by its proper officers this ___ day of _____, 2002.

[CORPORATE SEAL] UNIVERSAL HEALTH SERVICES, INC.

Attest: _____ By: _____

EXHIBIT 22. Subsidiaries of Registrant

Name of Subsidiary	Jurisdiction of Incorporation
ASC of Aiken, Inc.	Delaware
ASC of Brownsville, Inc.	Delaware
ASC of Corona, Inc.	California
ASC of East New Orleans, Inc.	Delaware
ASC of Hammond, Inc.	Delaware
ASC of Las Vegas, Inc.	Nevada
ASC of Littleton, Inc.	Colorado
ASC of Midwest City, Inc.	Oklahoma
ASC of New Albany, Inc.	Indiana
ASC of Orangeburg, Inc.	Delaware
ASC of Palm Springs, Inc.	California
ASC of Ponca City, Inc.	Oklahoma
ASC of Puerto Rico, Inc.	Delaware
ASC of Reno, Inc.	Nevada
ASC of Springfield, Inc.	Missouri
ASC of St. George, Inc.	Utah
ASC of Wellington, Inc.	Florida
Aiken Regional Medical Centers, Inc.	South Carolina
Alliance PPO, Inc.	Texas
Ambulatory Surgery Center of Brownsville, L.P.	Delaware
Ambulatory Surgery Center of Orangeburg, L.L.C.	Delaware
Ambulatory Surgical Center of Aiken, L.L.C.	South Carolina
Arbour Elder Services, Inc.	Massachusetts

Name of Subsidiary	Jurisdiction of Incorporation
Arbour Health Systems Foundation, Inc.	Massachusetts
Arkansas Surgery Center of Fayetteville, L.P.	Arkansas
Auburn Regional Medical Center, Inc.	Washington
Behavioral Healthcare Alliance, LLC	Kentucky
Bluegrass Regional Cancer Center, L.L.P.	Kentucky
Bowling Green Radiation Therapy Associates, L.L.P.	Kentucky
Bowling Green Radiation Therapy, P.S.C.	Kentucky
Capitol Radiation Therapy, L.L.P.	Kentucky
Central Montgomery Medical Center, L.L.C.	Pennsylvania
Chalmette Medical Center, Inc.	Louisiana
Choate Health Management, Inc.	Massachusetts
Cie Financière & Immobilière Médicale	France
Clinic Management Services	France
Clinique Ambroise Para SA	France
Clinique Andre Paré	France
Clinique Bon Secours	France
Clinique de Bercy	France
Clinique Investissement	France
Clinique Pasteur	France
Clinique Richelieu	France
Clinique Saint Augustin	France
Choate Integrated Behavioral Healthcare Corporation	Massachusetts
Choate Mental Health Center, Inc.	Massachusetts
Community Behavioral Health, L.L.C.	Delaware
Contemporary Physician Services, Inc.	Texas

Name of Subsidiary	Jurisdiction of Incorporation
C.S.J.	France
Danville Radiation Therapy, L.L.P.	Kentucky
Del Amo Hospital, Inc.	California
District Hospital Partners, L.P.	District of Columbia
Doctors' Hospital of Shreveport, Inc.	Louisiana
Eye Surgery Specialists of Puerto Rico, L.L.C.	Delaware
Eye West Laser Vision, L.P.	Delaware
Foncière G	France
Forest View Psychiatric Hospital, Inc.	Michigan
Fort Duncan Medical Center, Inc.	Delaware
Fort Duncan Medical Center, L.P.	Delaware
Frontline Behavioral Health, Inc.	Delaware
Frontline Counseling Centers, LLC	Delaware
Frontline Hospital, LLC	Delaware
Frontline Residential Treatment Center, LLC	Delaware
G.V.I.	France
Glen Oaks Hospital, Inc.	Texas
Gravelle Bercy	France
HRI Clinics, Inc.	Massachusetts
HRI Hospital, Inc.	Massachusetts
Health Care Finance & Construction Corp.	Delaware
Holding Saint Augustin	France
Hope Square Surgical Center, L.P.	Delaware
Immoblière Bon Secours	France
Immoblière de la Clinique Richelieu	France

Name of Subsidiary	Jurisdiction of Incorporation
Immoblière Saint Augustin	France
Internal Medicine Associates of Doctors' Hospital, Inc.	Louisiana
Kentucky Radiation Services, Inc.	Kentucky
La Amistad Residential Treatment Center, Inc.	Florida
Lancaster Hospital Corporation	California
Laredo ASC. Inc.	Texas
Laredo Holdings, Inc.	Delaware
Laredo Providence Management, L.L.C.	Texas
Laredo Regional Medical Center, L.P.	Delaware
Laredo Regional, Inc.	Delaware
Madison Radiation Oncology Associates, L.L.C.	Indiana
Maison de Santé Pasteur	France
Manatee Memorial Hospital, L.P.	Delaware
McAllen Holdings, Inc.	Delaware
McAllen Hospitals, L.P.	Delaware
McAllen Medical Center Foundation	Texas
McAllen Medical Center Physicians Group, Inc.	Texas
McAllen Medical Center, Inc.	Delaware
Médi-Partenaires SAS	France
Meridell Achievement Center, Inc.	Texas
Merion Building Management, Inc.	Delaware
NP Family Practice, L.L.C.	Pennsylvania
Nevada Preferred Professionals, Inc.	Nevada
Nevada Radiation Oncology Center-West, L.L.C.	Nevada
New Albany Outpatient Surgery, L.P.	Delaware

Name of Subsidiary	Jurisdiction of Incorporation
Northern Nevada Ambulatory Surgical Center, L.L.C.	Nevada
Northern Nevada Medical Center, L.P.	Delaware
Northwest Texas Healthcare System, Inc.	Texas
Northwest Texas Surgical Hospital, L.L.C.	Texas
Nouvelle Clinique Villette	France
Oasis Health Systems, L.L.C.	Nevada
Plaza Surgery Center Limited Partnership	Nevada
Polyclinique Saint Jean	France
Professional Probation Services, Inc.	Georgia
Professional Surgery Corporation of Arkansas	Arkansas
Providence ASC Management, L.L.C.	Texas
Providence Hospital Real Estate, L.P.	Texas
Providence Hospital, L.P.	Texas
Pueblo Medical Center, Inc.	Nevada
RCW of Edmond, Inc.	Oklahoma
Radiation Therapy Associates of California, L.L.C.	California
Radiation Therapy Medical Associates of Bakersfield, Professional Corporation	California
Relational Therapy Clinic, Inc.	Louisiana
Renaissance Women’s Center of Austin, L.L.C.	Texas
Renaissance Women’s Center of Edmond, L.L.C.	Oklahoma
Ridge Outpatient Counseling, L.L.C.	Kentucky
River Crest Hospital, Inc.	Texas
River Oaks, Inc.	Louisiana
River Parishes Internal Medicine, Inc.	Louisiana

Name of Subsidiary	Jurisdiction of Incorporation
Santé Finance SA	France
Santé Parteniers S.a.r.l.	Luxembourg
Socrate	France
Southern Indiana Radiation Oncology Associates, L.L.C.	Indiana
Sparks Family Hospital, Inc.	Nevada
St. George Surgical Center, L.P.	Delaware
St. Louis Behavioral Medicine Institute, Inc.	Missouri
Ste Nille D'Exploitation de la Clinique Cardiologique D'Aressy	France
Summerlin Hospital Medical Center, L.L.C.	Delaware
Summerlin Hospital Medical Center, L.P.	Delaware
Surgery Center at Wellington, L.L.C.	Florida
Surgery Center of Corona, L.P.	Delaware
Surgery Center of Hammond, L.L.C.	Delaware
Surgery Center of Littleton, L.P.	Delaware
Surgery Center of Midwest City, L.P.	Delaware
Surgery Center of New Orleans East, L.L.C.	Delaware
Surgery Center of Ponca City, L.P.	Delaware
Surgery Center of Springfield, L.P.	Delaware
Surgery Center of Waltham, Limited Partnership	Massachusetts
The Arbour, Inc.	Massachusetts
The Bridgeway, Inc.	Arkansas
The Friends of Wellington Regional Medical Center, Inc.	Florida
The Pavilion Foundation	Illinois

Name of Subsidiary	Jurisdiction of Incorporation
Tonopah Health Services, Inc.	**Nevada**
Trenton Street Corporation	**Texas**
Turning Point Care Center, Inc.	**Georgia**
Two Rivers Psychiatric Hospital, Inc.	**Delaware**
UHS Advisory, Inc.	**Delaware**
UHS Broadlane Holdings L.P.	**Delaware**
UHS Health Partners S.a.r.l.	**Luxembourg**
UHS Holding Company, Inc.	**Nevada**
UHS International, Inc.	**Delaware**
UHS Ireland Limited	**Ireland**
UHS Las Vegas Properties, Inc.	**Nevada**
UHS Managed Care Operations, L.L.C.	**Pennsylvania**
UHS Midwest Center for Youth and Families, Inc.	**Indiana**
UHS Receivables Corp.	**Delaware**
UHS Recovery Foundation, Inc.	**Pennsylvania**
UHS of Anchor, L.P.	**Delaware**
UHS of Belmont, Inc.	**Delaware**
UHS of Bradenton, Inc.	**Florida**
UHS of D.C., Inc.	**Delaware**
UHS of Delaware, Inc.	**Delaware**
UHS of Eagle Pass, Inc.	**Delaware**
UHS of Fairmount, Inc.	**Delaware**
UHS of Fayetteville, Inc.	**Arkansas**
UHS of Fuller, Inc.	**Massachusetts**
UHS of Georgia Holdings, Inc.	**Delaware**
UHS of Georgia, Inc.	**Delaware**

Name of Subsidiary	Jurisdiction of Incorporation
UHS of Greenville, Inc.	**Delaware**
UHS of Hampton Learning Center, Inc.	**New Jersey**
UHS of Hampton, Inc.	**New Jersey**
UHS of Hartgrove, Inc.	**Illinois**
UHS of Indiana, Inc.	**Indiana**
UHS of Indianapolis, Inc.	**Indiana**
UHS of Lakeside, Inc.	**Delaware**
UHS of Laurel Heights, L.P.	**Delaware**
UHS of Manatee, Inc.	**Florida**
UHS of New Orleans, Inc.	**Louisiana**
UHS of Odessa, Inc.	**Texas**
UHS of Oklahoma, Inc.	**Oklahoma**
UHS of Parkwood, Inc.	**Delaware**
UHS of Peachford, L.P.	**Delaware**
UHS of Pennsylvania, Inc.	**Pennsylvania**
UHS of Provo Canyon, Inc.	**Delaware**
UHS of Puerto Rico, Inc.	**Delaware**
UHS of Ridge, Inc.	**Delaware**
UHS of River Parishes, Inc.	**Louisiana**
UHS of Rockford, Inc.	**Delaware**
UHS of Talbot, L.P.	**Delaware**
UHS of Timberlawn, Inc.	**Texas**
UHS of Waltham, Inc.	**Massachusetts**
UHS of Westwood Pembroke, Inc.	**Massachusetts**
UHSMS, Inc.	**Delaware**
UHSR Corporation	**Delaware**

Name of Subsidiary	Jurisdiction of Incorporation
Universal Community Behavioral Health, Inc.	Pennsylvania
Universal HMO, Inc.	Nevada
Universal Health Network, Inc.	Nevada
Universal Health Pennsylvania Properties, Inc.	Pennsylvania
Universal Health Recovery Centers, Inc.	Pennsylvania
Universal Health Services of Cedar Hill, Inc.	Texas
Universal Health Services of Concord, Inc.	California
Universal Health Services of Palmdale, Inc.	Delaware
Universal Health Services of Rancho Springs, Inc.	California
Universal Health Services, Inc.	Delaware
Universal Probation Services, Inc.	Georgia
Universal Treatment Centers, Inc.	Delaware
Valley Health System, L.L.C.	Delaware
Valley Hospital Medical Center, Inc.	Nevada
Valley Surgery Center, L.P.	Delaware
Victoria Regional Medical Center, Inc.	Texas
Vista Diagnostic Center, L.L.C.	Nevada
Wellington Physician Alliances, Inc.	Florida
Wellington Regional Health & Education Foundation, Inc.	Florida
Wellington Regional Medical Center Incorporated	Florida

EXHIBIT 23.2

INFORMATION REGARDING CONSENT OF ARTHUR ANDERSEN LLP

Section 11 (a) of the Securities Act of 1933, as amended (the "Securities Act"), provides that if part of a registration statement at the time it becomes effective contains an untrue statement of material fact, or omits a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to such registration statement (unless it is proved that at the time of such acquisition such person knew of such untruth or omission) may assert a claim against, among others, an accountant who has consented to be named as having certified any part of the registration statement or as having prepared any report for use in connection with the registration statement.

The Company dismissed Arthur Andersen LLP ("Andersen") as its independent auditors, effective June 18, 2002. For additional information, see the Company's Current Report on Form 8-K dated, June 18, 2002. After reasonable efforts, the Company has been unable to obtain Andersen's written consent to the incorporation by reference into the Company's registration statements on Form S-8 (File No. 333-46384), (File No. 33-49428), (File No. 33-51671), (File No. 33-56575), (File No. 33-63291), (File No. 333-13453) and (File No. 333-63926), and Form S-3 (File No. 333-46098), (File No. 333-59916) (the "Registration Statements") of Andersen's audit report with respect to the Company's consolidated financial statements as of December 31, 2001 and for each of the three years then ended. Under these circumstances, Rule 437a under the Securities Act permits the Company to file this Annual Report on Form 10-K, which is incorporated by reference into the Registration Statements, without a written consent from Andersen. As a result, with respect to transactions in the Company's securities pursuant to the Registration Statements that occur subsequent to the date this Annual Report on Form 10-K is filed with the Securities and Exchange Commission, Andersen will not have any liability under Section 11 (a) of the Securities Act for any untrue statements of a material fact contained in the financial statements audited by Andersen or any omissions of a material fact required to be stated therein. Accordingly, you would be unable to assert a claim against Andersen under Section 11 (a) of the Securities Act.

Exhibit 24.1

INDEPENDENT AUDITORS' CONSENT

To the Board of Directors and Stockholders of Universal Health Services, Inc.:

We consent to the incorporation by reference in the Registration Statements (File Nos. 333-46384, 33-49428, 33-51671, 33-56575, 33-63291, 333-13453 and 333-63926) on Form S-8 and Registration Statements (File Nos. 333-46098, 333-85781, 333-59916) on Form S-3 of Universal Health Services, Inc. and subsidiaries of our report dated February 28, 2003, with respect to the consolidated balance sheet of Universal Health Services, Inc. as of December 31, 2002, and the related consolidated statements of income, common stockholders' equity and cash flows for the year then ended, and the related financial statement schedule, which report appears in the December 31, 2002, annual report on Form 10-K of Universal Health Services, Inc.

Our report contains an explanatory paragraph relating to the fact that the financial statements of Universal Health Services, Inc. and subsidiaries as of December 31, 2001, and for each of the years in the two-year period then ended, were audited by other auditors who have ceased operations. As described in Note 1, the financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which was adopted as of January 1, 2002. In our opinion, the disclosures for 2001 and 2000 in Note 1 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 financial statements of Universal Health Services, Inc. and subsidiaries other than with respect to such adjustments and disclosures, and accordingly, we do not express an opinion or any other form of assurance on the 2001 and 2000 financial statements taken as a whole

/s/ KPMG LLP

Philadelphia, Pennsylvania
March 17, 2003

Exhibit 24.2

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statements on Form S-8 (File No. 333-46384), (File No. 33-49428), (File No. 33-51671), (File No.33-56575), (File No. 33-63291), (File No. 333-13453), and (File No. 333-63926), and Form S-3 (File No. 333-46098), (File No. 333-85781), and (File No. 333-59916).

/s/ Arthur Andersen LLP

Arthur Andersen LLP

Philadephia, PA
March 26, 2002

EXHIBIT 99.1

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 Annual Report of Universal Health Services, Inc. (the "Company") on Form 10-K for the year ended December 31, 2002 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
March 18, 2003

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 Annual Report of Universal Health Services, Inc. (the "Company") on Form 10-K for the year ended December 31, 2002 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
March 18, 2003