FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the fiscal year ended December 31, 1994

OR

| | TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from ______to ______

Commission File No. 0-10454

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 King of Prussia, Pennsylvania	19406
(Address of principal executive offices)	(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 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___X___ 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. | |

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 February 15, 1995, was 1,090,527, 12,717,959, 109,622, and 22,487, respectively.

The aggregate market value of voting stock held by non-affiliates at February 15, 1995 was $318,865,646.20. (For 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 1995 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 1994 (incorporated by reference under Part III).

PART I

ITEM 1. BUSINESS

Universal Health Services, Inc., (together with its subsidiaries, the "Company" or "UHS"), formed in 1978, is engaged principally in owning and operating acute care hospitals, behavioral health centers, ambulatory surgery centers and radiation oncology centers. As of December 31, 1994, the Company operates 29 hospitals with an aggregate of 3,667 licensed beds. Of these facilities, 15 are general acute care hospitals and 14 are psychiatric care facilities (two of which are substance abuse facilities). In addition, the Company, as part of its Ambulatory Treatment Centers Division, owns, in partnership with physicians, and operates or manages surgery and radiation therapy centers located in various states.

UHS has also entered into other specialized medical service arrangements, laboratory services, mobile Computerized Tomography (CT) and Magnetic Resonance Imaging (MRI) services, preferred provider organization arrangements, health maintenance organization contracts, medical office building leasing, construction management services and real estate management and administrative services.

UHS provides capital resources as well as a variety of management services to its facilities, including central purchasing, data processing, finance and control systems, facilities planning, physician recruitment services, administrative personnel management, marketing and public relations. Each of the hospitals and ambulatory treatment centers currently owned by the Company provides the medical and surgical, psychiatric, or ambulatory services typically available in such facilities. The surgery centers provide a cost-effective alternative to inpatient care for the performance of minor surgeries. Each facility 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 facility's medical staff, governs the medical, professional and ethical practices at each facility.

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 to dispose 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 several states which require certificates of need (e.g., Georgia and Illinois). 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.

The Company serves as advisor to Universal Health Realty Income Trust ("UHT"), which leases to the Company the real property of 8 facilities operated by the Company. In addition, UHT holds interests in properties owned by unrelated companies. The Company receives a fee for its advisory services based on the value of UHT's assets. In addition, certain of the directors and officers of the Company serve as trustees and officers of UHT. As of February 15, 1995, the Company owns 7.7% of UHT's outstanding shares and has an option to purchase UHT shares in the future at fair market value to enable it to maintain a 5% interest.

RECENT DEVELOPMENTS

After several years of following its strategy of consolidation to focus on its core operations and selective expansion in areas in which it believed there are opportunities for growth, the Company was positioned to take advantage of several acquisition and growth opportunities in 1994. The Company acquired Edinburg Hospital, a 112-bed facility in Edinburg, Texas, which it will replace with a state of the art facility while converting the existing facility to a skilled nursing and sub-acute care facility. The Company entered into an agreement to exchange the operations and fixed assets of Westlake Medical Center, a 126-bed acute care facility in Westlake, California, and Dallas Family Hospital, a 104-bed hospital in Dallas, Texas, in addition to a cash payment, for Aiken Regional Medical Centers, a 225-bed medical center in Aiken, South Carolina. This transaction is expected to be consummated in the second quarter of 1995. In addition, the Company agreed to acquire Manatee Memorial Hospital, a 512-bed acute care hospital located in Manatee, Florida. The closing is expected to occur in the third quarter of 1995. Pending closing, the Company is managing the facility for its current owners.

In addition, the Company is developing, along with the participation of the Howard Hughes Corporation, a medical complex including a 120-bed hospital, ambulatory surgery center, medical office building and diagnostic center in the western suburbs of Las Vegas, Nevada.

In 1994, the Company continued to add to its Ambulatory Treatment Centers Division and acquired, in partnership with physicians, additional free-standing ambulatory surgery centers located in Palm Springs, California and Corona, California. Also, as part of this Division, the Company acquired, or developed, radiation oncology centers in Danville, Kentucky; Frankfort, Kentucky; Bowling Green, Kentucky; Glasgow, Kentucky; Jeffersonville, Indiana; Madison, Indiana; and Auburn, Washington.

The Company also selectively expanded its operations at certain of its existing facilities: McAllen Medical Center in McAllen, Texas, opened a free-standing radiation treatment center; River Parishes Hospital in LaPlace, Louisiana (1) completed renovation of its emergency room and its operating rooms; and (2) began construction of a 30,000 square foot medical office building which is scheduled for completion in mid-August 1995; Auburn General Hospital in Auburn, Washington, opened its new medical office building and parking garage.

BED UTILIZATION AND OCCUPANCY RATES

The following table shows the bed utilization and occupancy rates for the hospitals operated by the Company for the years indicated, excluding information relating to hospitals no longer owned by the Company as of December 31, 1994 and including the information for a 112-bed acute care hospital located in Edinburg, Texas which was acquired by the Company during 1994. Accordingly, the information is presented on a basis different from that used in preparing the historical financial information included in this Report.

	1994	1993	1992	1991	1990
Average Licensed Beds	3,628	3,559	3,464	3,378	3,281
Average Available Beds (1)	3,314	3,240	3,095	3,060	2,965
Hospital Admissions	91,552	84,205	80,971	80,340	75,909
Average Length of Patient Stay (Days)	6.4	6.8	7.2	7.5	7.8
Patient Days (2)	588,329	570,127	583,768	605,702	590,335
Occupancy Rate (3):					
Licensed Beds	44%	44%	46%	49%	49%
Available Beds	49%	48%	52%	54%	55%

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(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 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. Most of the company's hospitals 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. 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.

Valley Hospital Medical Center in Las Vegas, Nevada contributed 19%, 16% and 16% of the Company's net revenues and 35%, 32% and 32% of the Company's earnings before interest, income taxes, depreciation, amortization, lease and rental expense and non-recurring transactions (EBITDAR), for the three years ended December 31, 1994, 1993 and 1992, respectively, excluding the effect of the special Medicaid reimbursements received at one of the Company's Texas acute care hospitals of $12.4 million, $13.5 million and $29.8 million for the years ended December 31, 1994, 1993 and 1992, respectively. McAllen Medical Center in McAllen, Texas contributed 21%, 18% and 16% of the Company's net revenues and 35%, 32% and 24% of the Company's EBITDAR, for the years ended December 31, 1994, 1993 and 1992, respectively, excluding the special Medicaid reimbursement increases mentioned above.

The following table shows approximate percentages of gross revenue derived by the Company's hospitals owned as of December 31, 1994 since their respective dates of acquisition by the Company from third party sources and from all other sources during the five years ended December 31, 1994.

	PERCENTAGE OF REVENUES				
	1994	1993	1992	1991	1990
Third Party Payors:					
Blue Cross	2.9%	1.9%	2.0%	2.7%	2.5%
Medicare	39.4%	40.7%	41.0%	40.7%	39.4%
Medicaid	13.7%	12.3%	10.1%	8.0%	7.3%
TOTAL	56.0%	54.9%	53.1%	51.4%	49.2%
Other Sources (including patients and private insurance carriers)	44.0%	45.1%	46.9%	48.6%	50.8%
	100%	100%	100%	100%	100%

REGULATION AND OTHER FACTORS

Within the statutory framework of the Medicare and Medicaid programs, there are substantial areas subject to administrative rulings, interpretations and discretion which may affect payments made under either or both of such programs and reimbursement is subject to audit and review by third party payors. Management believes that adequate provision has been made for any adjustments that might result therefrom.

The Federal government makes payments to participating hospitals under its Medicare program based on various formulae. The Company's general acute care hospitals are subject to a prospective payment system ("PPS"). PPS pays hospitals a predetermined amount per diagnostic related group ("DRG") based upon a hospital's location and the patient's diagnosis.

The deficit-reduction legislation passed by Congress in 1987 limits the increases in PPS reimbursement based on the rate of inflation and the location of hospitals. Psychiatric hospitals, which are exempt from PPS, are cost reimbursed by the Medicare program, but are subject to a per discharge limitation, calculated based on the hospital's first full year in the Medicare program. Capital related costs are exempt from this limitation.

On August 30, 1991, the Health Care Financing Administration issued final Medicare regulations establishing a prospective payment methodology for inpatient hospital capital-related costs. These regulations apply to hospitals which are reimbursed based upon the prospective payment system and took effect for cost years beginning on or after October 1, 1991. For each of the Company's hospitals, the new methodology began on January 1, 1992.

The regulations provide for the use of a 10-year transition period in which a blend of the old and new capital payment provisions will be utilized. One of two methodologies will apply during the 10-year transition period: if the hospital's hospital-specific capital rate exceeds the federal capital rate, the hospital will be paid on the basis of a "hold harmless" methodology, which is a blend of actual cost reimbursement and a prospectively determined national federal capital rate; or, with limited exceptions, if the hospital-specific rate is below the federal capital rate, the hospital will receive payments based upon a "fully prospective" methodology, which is a blend of the hospital's actual base year capital rate and a prospectively determined national federal capital rate. Each hospital's hospital-specific rate was determined based upon allowable capital costs incurred during the "base year", which, for all of the Company's hospitals, is the year ended December 31, 1990. All of the Company's hospitals are paid under the "hold harmless" methodology except for one hospital, which is paid under the "fully prospective" methodology.

Within certain limits, a hospital can manage its costs, and, to the extent this is done effectively, a hospital may benefit from the DRG system. However, many hospital operating costs are incurred in order to satisfy licensing laws, standards of the Joint Commission on the Accreditation of Healthcare Organizations 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 judgments 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.

There have been additional proposals either proposed by the Administration or in Congress to reduce the funds available for the Medicare and Medicaid programs and to change the method by which hospitals are reimbursed for services provided to Medicare and Medicaid patients, including free indigent care. In addition, state governments may, in the future, reduce funds available under the Medicaid programs which they fund in part or impose additional restrictions on the utilization of hospital services. A number of legislative initiatives were proposed in 1994, and may be proposed again in 1995, which if enacted would result in major changes in the health care system, nationally and/or at the state level. Several of these proposals would impose price controls on hospitals, require that all businesses offer health insurance to their employees, expand health insurance coverage to those presently uninsured, and limit the rate of increase in spending for Medicare and other health care costs as part of overall deficit reduction measures. The Company is unable to predict which bill, if any, will be adopted, or the ultimate impact its adoption would have on the Company; however, new legislation, if passed, could have a material adverse effect on the Company's future revenues.

In addition to federal health reform efforts, several states have adopted or are considering health care reform legislation. Several states are planning to consider wider use of managed care for their Medicaid populations and providing coverage for some people who presently are uninsured. A number of other states are considering the enactment of managed care initiatives designed to provide low-cost coverage.

The Company currently operates two psychiatric hospitals with a total of 186 beds in Massachusetts, which has mandated hospital rate-setting. The Company also operates three hospitals containing an aggregate of 378 beds, and manages one hospital with 512 beds, in Florida that are subject to a mandated form of rate-setting if increases in hospital revenues per admission exceed certain target percentages. The Company does not believe that such regulation has had a material adverse effect on its operations.

Pursuant to Federal legislation, in general, the Federal government is required to match state funds applied to state Medicaid programs. Several states have initiated programs under which certain hospital providers are taxed to generate Medicaid funds which must be matched by the Federal government. New legislation passed by Congress on November 27, 1991, limits each state's use of provider taxes in 1994. State programs involving provider taxes in which UHS' hospitals are participants are in place in Texas, Louisiana, Missouri, Nevada and Washington. Included in the Company's 1994 financial results is revenue attributable to these programs, some of which expired in 1994. The Company cannot predict whether the remaining programs will continue beyond the scheduled termination dates.

Under the Omnibus Budget Reconciliation Act of 1993 ("OBRA"), enacted by Congress in late 1993, and effective January 1, 1995, physicians are precluded from referring Medicare and Medicaid patients for a wide range of services where the physician has an ownership interest or investment interest in, or compensation arrangement with, an entity that provides such services. The legislation includes certain exceptions including, for example, where the referring physician has an ownership interest in a hospital as a whole or an ambulatory surgery center if the physician performs services at the center. In addition, all Medicare providers and suppliers are subject to certain reporting and disclosure requirements.

In 1991, 1992 and 1993, the Inspector General of the Department of Health and Human Services ("HHS") issued regulations. These regulations provide for "safe harbors"; if an arrangement or transaction meets each of the stipulations 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 analyzed under its particular facts and circumstances to determine whether it violates the Medicare anti-kickback statute which prohibits, in general, fraudulent and abusive practices, and enforcement action may be taken by the Inspector General. In addition to the investment interests safe harbor, other safe harbors include 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 Company does not anticipate that either the OBRA provisions or the safe harbor regulations will have material adverse effects upon its operations.

Several states, including Florida and Nevada, have passed new 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 the Company's operations.

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. The Company's hospitals must comply with the 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 the Company's eligible hospitals have been accredited by the Joint Commission on the Accreditation of Healthcare Organizations.

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 the Department of Health and Human Services (the "Secretary"), 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 the Company's 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. The Company has not experienced and does not expect to experience any material adverse effects from those requirements.

Health planning statues and regulatory mechanisms are in place in many states in which the Company operates. These provisions govern the distribution of health care services, the number of new and replacement hospital beds, administer required state CON laws, contain health care 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. The Company is unable to predict the impact of these changes upon its 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. The Company has contracted with PROs in each state where it does business as to the scope of such functions.

The Company's health care 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. 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 $150,000 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. The Company believes that its disposal of such wastes is in compliance with all state and federal laws.

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. The Company's facilities had approximately 9,800 employees at December 31, 1994, of whom 7,400 were employed full-time.

At Valley Hospital Medical Center in Las Vegas, unionized employees belong to the Culinary Workers and Bartenders Union and the International Union of Operating Engineers. Registered nurses at Auburn General Hospital located in Washington State, are represented by the Washington State Nurses Association, and the practical nurses at Auburn are represented by the United Food and Commercial Workers. The Service Employees International Union, Local 6, purports to have perfected an affiliation with the LPNA. That affiliation is currently being challenged by Seattle area hospitals in Federal court. In addition, at Auburn, the technical employees are represented by the United Food and Commercial Workers, and the service employees are represented by the Service Employees International Union. The registered nurses, licensed practical nurses, certain technicians and therapists, and housekeeping employees at the Human Resource Institute in Boston are represented by the Service Employees International Union. All full-time and regular part-time professional employees of LaAmistad Residential Treatment Center in Maitland, Florida are represented by the United Nurses of Florida/United Health Care Employees Union.

The Company believes that its relations with its employees are satisfactory.

COMPETITION

In most 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. In addition, certain hospitals which are located in the areas served by the Company are special service hospitals providing medical, surgical and psychiatric services that are not available at the company's or other general hospitals. The competitive position of a hospital is to a large degree dependent upon the number and quality of staff physicians. Although a physician may at any time terminate his or her affiliation with a hospital, the Company seeks to retain doctors of varied specializations on its hospital staffs and to attract other qualified doctors by improving facilities and maintaining high ethical and professional standards. The competitive position of a hospital is also affected by the presence of managed care organizations such as preferred provider organizations and health maintenance organizations and indemnity insurance programs in the hospital's service area. Such organizations normally require a discount from a hospital's established charges. Outpatient treatment and diagnostic facilities, outpatient surgical centers and freestanding ambulatory surgical centers also impact the health care marketplace. In recent years, competition among health care providers for patients has intensified as hospital occupancy rates in the United States have declined 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.

LIABILITY INSURANCE

The Company is self-insured for its general liability risks for claims limited to $5 million per occurrence and for its professional liability risks for claims limited to $25 million per occurrence. Coverage in excess of these limits up to $100 million is maintained with major insurance carriers. During 1994 and 1993, the Company purchased a general and professional liability occurrence policy with a commercial insurer for one of its larger acute care facilities. This policy includes coverage up to $25 million per occurrence for general and professional liability risks. Although the Company feels that it currently has adequate insurance coverage, the commercial policies are limited to one-year terms and require annual renegotiation or replacement. The Company has no assurance that it will be able to maintain such insurance in the future on terms acceptable to the Company.

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 (57)	Director, Chairman of the Board, President and Chief Executive Officer
Kirk E. Gorman (44)	Senior Vice President and Chief Financial Officer
Richard C. Wright (47)	Vice President
Thomas J. Bender (42)	Vice President
Michael G. Servais (48) ...	Vice President
Steve G. Filton (37)	Vice President and Controller
Sidney Miller (68)	Director and Secretary

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.

Mr. Gorman was elected Senior Vice President and Chief Financial Officer in December 1992, and has served as Vice President and Treasurer of the Company since April 1987. From 1984 until then, he served as Senior Vice President of Mellon Bank, N.A. Prior thereto, he served as Vice President of Mellon Bank, N.A.

Mr. Wright was elected Vice President of the Company in May 1986. He has served in various capacities with the Company since 1978, including Senior Vice President of its Acute Care Division since 1985.

Mr. Bender was elected Vice President of the Company in March 1988. He has served in various capacities with the Company since 1982, including responsibility for the Psychiatric Care Division since November 1985.

Mr. Filton was elected Vice President and Controller of the Company in November 1991, and had served as Director of Accounting and Control since July 1985.

Mr. Servais was elected Vice President of the Company in January 1994, and had served as Assistant Vice President of the Company since January 1993, and Group Director since December 1990. Prior thereto, he served as President of Jupiter Hospital Corporation, and Vice President of Operations of American Health Group International.

Mr. Sidney Miller has served as Secretary of the Company since 1990 and Director of the Company since 1978. He has served in various capacities with the Company, including Executive Vice President since 1983, Vice President since 1978, and Assistant to the President during 1993 and 1994. Prior thereto, he was Vice President-Financial Services and Control of American Medicorp, Inc.

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. The Company currently uses approximately 40,000 square feet of office space in the building and the balance is leased to unrelated entities.

ACUTE CARE HOSPITALS

Auburn General Hospital
Auburn, Washington
149 Beds

Chalmette Medical Center(1)
Chalmette, Louisiana
118 Beds

Doctors' Hospital of Shreveport(2)
Shreveport, Louisiana
180 Beds

Edinburg Hospital
Edinburg, Texas
112 Beds

Inland Valley Regional Medical Center(1)
Wildomar, California
80 Beds

McAllen Medical Center(1)
McAllen, Texas
428 Beds

Northern Nevada Medical Center(3)
Sparks, Nevada
150 Beds

River Parishes Hospital(6)
LaPlace and Chalmette, Louisiana
216 Beds

Universal Medical Center
Plantation, Florida
202 Beds

Valley Hospital Medical Center
Las Vegas, Nevada
416 Beds

Victoria Regional Medical Center
Victoria, Texas
154 Beds

Wellington Regional Medical Center(1)
West Palm Beach, Florida
120 Beds

Aiken Regional Medical Centers(9)
Aiken, South Carolina
225 Beds

Manatee Memorial Hospital(7)
Bradenton, Florida
512 Beds

BEHAVIORAL HEALTH CENTERS

The Arbour Hospital
Boston, Massachusetts
118 Beds

The BridgeWay(1)
North Little Rock, Arkansas
70 Beds

Del Amo Hospital
Torrance, California
166 Beds

Forest View Hospital
Grand Rapids, Michigan
62 Beds

Glen Oaks Hospital
Greenville, Texas
53 Beds

HRI Hospital
Brookline, Massachusetts
68 Beds

KeyStone Center(4)
Wallingford, Pennsylvania
84 Beds

La Amistad Residential Treatment Center
Maitland, Florida
56 Beds

Meridell Achievement Center(1)
Austin, Texas
114 Beds

The Pavilion(8)
Champaign, Illinois
48 Beds

River Crest Hospital
San Angelo, Texas
80 Beds

River Oaks Hospital
New Orleans, Louisiana
126 Beds

Turning Point Hospital(4)
Moultrie, Georgia
59 Beds

Two Rivers Psychiatric Hospital
Kansas City, Missouri
80 Beds

AMBULATORY SURGERY CENTERS

Goldring Surgical and Diagnostic Center
Las Vegas, Nevada

Surgery Centers of the Desert(5)
Rancho Mirage, California
Palm Springs, California

M.D. Physicians Surgicenter of Midwest City(5)
Midwest City, Oklahoma

Outpatient Surgical Center of Ponca City(5)
Ponca City, Oklahoma

The Regional Cancer Center at Wellington
West Palm Beach, Florida

St. George Surgical Center(5)
St. George, Utah

The Surgery Center of Chalmette
Chalmette, Louisiana

Surgery Center of Littleton(5)
Littleton, Colorado

Surgery Center of Springfield(5)
Springfield, Missouri

Surgery Center of Texas(5)
Odessa, Texas

Surgical Center of New Albany(5)
New Albany, Indiana

Surgery Center of Corona(5)
Corona, California

RADIATION ONCOLOGY CENTERS

Auburn Regional Center for Cancer Care
Auburn, Washington
Bowling Green Radiation Oncology Associates(8)
Bowling Green, Kentucky
Capital Radiation Therapy Center(8)
Frankfort, Kentucky
Columbia Radiation Oncology
Washington, D.C.
Danville Radiation Therapy Center(8)
Danville, Kentucky
Glasgow Radiation Oncology Associates(8)
Glasgow, Kentucky
Madison Radiation Oncology Associates
Madison, Indiana
McAllen Medical Center Cancer Institute
McAllen, Texas
Regional Cancer Center at Wellington
West Palm Beach, Florida
Southern Indiana Radiation Therapy
Jeffersonville, Indiana

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(1) Real property leased from UHT (see Item 1. Business).
(2) Real property leased with an option to purchase.
(3) General partnership interest in limited partnership.
(4) Addictive disease facility.
(5) General partnership and limited partnership interests in a limited partnership. The real property is leased from third parties.
(6) Includes Chalmette Hospital, a 114-bed rehabilitation facility, the real property of which is leased from UHT.
(7) Managed Hospital. The Company has agreed to acquire this facility.
(8) Managed Facility.
(9) The Company has entered into an agreement to exchange the operations and fixed assets of Westlake Medical Center, a 126-bed acute care facility in Westlake, California, and Dallas Family Hospital, a 104-bed hospital in Dallas, Texas for Aiken Regional Medical Centers. The transaction is expected to be consummated in the second quarter of 1995.

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.

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 at 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.

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, 1994 to a vote of security holders.

PART II

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

See Item 6, Selected Financial Data

ITEM 6. Selected Financial Data

Year Ended December 31	1994	1993	1992	1991	1990
Summary of Operations					
Net revenues	$782,199,000	$761,544,000	$731,227,000	$691,619,000	$674,982,000
Net income	$ 28,720,000	$ 24,011,000	$ 20,020,000	$ 20,319,000	$ 11,607,000
Net margin	3.7%	3.2%	2.7%	2.9%	1.7%
Return on average equity .	11.8%	11.2%	10.3%	11.6%	7.1%
Financial Data					
Cash provided by operating activities ...	$ 60,624,000	$ 84,640,000	$ 81,731,000	$ 47,190,000	$ 47,552,000
Capital expenditures(1)...	$ 48,652,000	$ 52,690,000	$ 40,554,000	$ 29,926,000	$ 29,125,000
Total assets	$521,492,000	$460,422,000	$472,427,000	$500,706,000	$535,041,000
Long-term borrowings	$ 85,125,000	$ 75,081,000	$114,959,000	$127,235,000	$205,646,000
Common stockholders' equity	$260,629,000	$224,488,000	$202,903,000	$184,353,000	$167,419,000
Percentage of total debt to capital	26%	26%	37%	49%	56%
Operating Data					
Average licensed beds	3,543	3,682	3,562	3,656	3,801
Average available beds ...	3,241	3,345	3,229	3,320	3,428
Hospital admissions	88,956	85,005	83,324	84,857	88,116
Average length of patient stay	6.5	6.8	7.2	7.6	7.5
Patient days	574,311	580,398	603,893	641,607	662,873
Occupancy rate for licensed beds	44%	43%	46%	48%	48%
Occupancy rate for available beds	49%	48%	51%	53%	53%
Per Share Data					
Net income	$ 2.02	$ 1.71	$ 1.43	$ 1.45	$ 0.84
Book value	$ 18.87	$ 16.69	$ 14.88	$ 13.42	$ 12.21
Common Stock Performance					
Market price of common stock					
High Low, by quarter(2)					
1st	26 5/8-19 1/4	16-12 5/8	15 1/2-12 3/8	14 1/4-8 1/4	10-8 1/2
2nd	26 7/8-22 1/2	16 1/4-13	13 7/8-11 1/8	15 7/8-13 1/8	9 1/2-7 5/8
3rd	29 1/2-25 7/8	17-14 1/2	13 3/8-11 1/4	17 5/8-14 5/8	10-6 3/8
4th	28 1/8-21 3/8	20 5/8-16 5/8	15 1/8-11 3/4	16-10 7/8	9 1/4-6 3/8

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(1) Amount includes non-cash capital lease obligations.

(2) 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 since June 7, 1991 and NASDAQ for all periods prior to June 7, 1991. Class A, C and D Common Stock are convertible on a share-for-share basis into Class B Common Stock.

Other Information					
Average number of shares and share equivalents outstanding	14,389,000	14,819,000	14,970,000	14,992,000	13,823,000

The 1994, 1993 and 1992 earnings per share and average number of shares outstanding have been adjusted to reflect the assumed conversion of the Company's convertible debentures. In April 1994, the Company redeemed the debentures which reduced the fully diluted number of shares outstanding by 451,233. The common equivalent shares and the corresponding interest savings on the assumed conversion of the convertible debentures were not included in the 1991 or 1990 earnings per share computations because the effect was anti-dilutive.

Number of shareholders of record as of January 31, 1995 were as follows:

Class A Common	7
Class B Common	608
Class C Common	7
Class D Common	345

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

Net revenues increased 3% ($21 million) to $782 million in 1994 and 4% ($30 million) to $762 million in 1993. Increases in both periods resulted primarily from revenue growth at facilities owned during each of the last three years, and the acquisition and development of ambulatory treatment centers, net of the revenue effects of facilities sold during these periods. Net revenues at hospital facilities owned during all three periods increased by 6.7% ($46 million) in 1994 over 1993 and 7.2% ($47 million) in 1993 over 1992, excluding the additional revenues received from the special Medicaid reimbursements received by one of the Company's acute care facilities which participates in the Texas Medical Assistance Program. Upon meeting certain conditions of participation and serving a disproportionately high share of the state's low income patients, the hospital became eligible and received additional reimbursements totalling $12.4 million in 1994, $13.5 million in 1993 and $29.8 million in 1992 from the state's disproportionate share hospital fund. These programs are scheduled to terminate in August, 1995 and the Company cannot predict whether these programs will continue beyond the scheduled termination date. Net revenues at the Company's ambulatory treatment centers increased to $17 million in 1994 from $11 million in 1993 and $2 million in 1992. The Company sold two hospitals in the fourth quarter of 1993, which reported net revenues of $38 million in 1993 and $48 million in 1992.

Excluding the revenue effects of the special Medicaid reimbursement programs, earnings before interest, income taxes, depreciation, amortization, lease and rental expense and non-recurring transactions (EBITDAR) increased from $106 million in 1992 to $113 million in 1993 and to $127 million in 1994. Overall operating margins improved from approximately 15% in both 1992 and 1993 to 16.5% in 1994. The improvement in the Company's overall operating margins in 1994 is due primarily to the divestiture of the two low margin acute care facilities in 1993 and lower insurance expense in 1994 as compared to the previous two years.

ACUTE CARE SERVICES

Net revenues from the Company's acute care hospitals and ambulatory treatment centers accounted for 85%, 84% and 84% of consolidated net revenues in 1994, 1993 and 1992, respectively.

Net revenues at the Company's acute care hospitals owned during each of the last three years increased 9% in 1994 over 1993 and 7% in 1993 over 1992, after excluding the revenues received from the special Medicaid reimbursements described above. Despite the continued shift in the delivery of healthcare services to outpatient care, the Company's acute care hospitals experienced a 10% increase in inpatient admissions and a 7% increase in patient days in 1994 due primarily to additional capacity and expansion of service lines at two of the Company's larger facilities. Admissions and patient days at these facilities remained relatively unchanged during 1993 as compared to 1992. Outpatient activity at the Company's acute care hospitals continues to increase as gross outpatient revenues at these hospitals increased 16% in 1994 over 1993 and 18% in 1993 over 1992 and comprised 24% of the Company's gross patient revenues in 1994 and 1993 and 23% in 1992. The increase is primarily the result of advances in medical technologies, which allow more services to be provided on an outpatient basis, and increased pressure from Medicare, Medicaid, health maintenance organizations (HMOs), preferred provider organizations (PPOs) and insurers to reduce hospital stays and provide services, where possible, on a less expensive outpatient basis. To accommodate the increased utilization of outpatient services, the Company has expanded or redesigned several of its outpatient facilities and services.

In addition, to take advantage of the trend toward increased outpatient services, the Company has continued to invest in the acquisition and development of outpatient surgery and radiation therapy centers. The Company currently operates or manages twenty-two outpatient treatment centers, including nine added during 1994, which have contributed to the increase in the Company's outpatient revenues. The Company expects the growth in outpatient services to continue, although the rate of growth may be moderated in the future.

Excluding the revenues received from the special Medicaid reimbursements described above, operating margins (EBITDAR) at the Company's Acute Care hospitals owned during all three years were 19.9%, 19.5% and 21.3% in 1994, 1993 and 1992, respectively. The margin improvement in 1994 over 1993 was primarily the result of lower insurance expense. The margin decline from 1992 to 1993 resulted primarily from deterioration in payer mix and general industry trends. Pressure on operating margins is expected to continue due to the industry-wide trend away from charge based payers which limits the Company's ability to increase its prices.

BEHAVIORAL HEALTH SERVICES

Net revenues from the Company's behavioral health services accounted for 14%, 15% and 15% of consolidated net revenues in 1994, 1993 and 1992, respectively. Net revenues at the Company's psychiatric hospitals owned during each of the last three years decreased 7% in 1994 as compared to 1993 due primarily to a reduction in patient days. Despite a 12% increase in admissions in 1994, patient days decreased 3% due to a reduction in the average length of stay to 13.8 days in 1994 from 15.9 days in 1993. The reduction in the average length of stay is a result of changing practices in the delivery of psychiatric care and continued cost containment pressures from payers which includes a greater emphasis on the utilization of outpatient services. Management of the Company has responded to these trends by developing and marketing new outpatient treatment programs. Net revenues at these hospitals increased 6% in 1993 as compared to 1992 due to a 17% increase in admissions offset by a reduction in the average length of stay to 15.9 days in 1993 from an average stay of 20.0 days in 1992. The shift to outpatient care is reflected in higher revenues from outpatient services, as gross outpatient revenues at the Company's psychiatric hospitals increased 17% in 1994 over 1993 and 39% in 1993 over 1992 and now comprises 15% of psychiatric gross patient revenues as compared to 13% in 1993 and 10% in 1992. In spite of the current environment in which the Company's psychiatric facilities are operating and the continually declining average length of stay, management continues to believe that there is a great demand for mental health services.

Operating margins (EBITDAR) at the facilities owned during all three years were 15.8% in 1994, 21.5% in 1993 and 17.6% in 1992. The decrease in the profit margin in 1994 as compared to 1993 was primarily caused by the decrease in the facility's net revenues which declined due to an increase in Medicaid denials, a decrease in days of care delivered and a decline in the net revenue per day.

OTHER OPERATING RESULTS

During 1994, the Company recorded $9.8 million of nonrecurring charges which includes a $4.3 million loss on the anticipated disposal of two acute care facilities. The Company expects to exchange these facilities, along with cash, for a 225 bed acute and psychiatric care hospital. This transaction is expected to be completed during the second quarter of 1995. Also included in nonrecurring charges is a $2.8 million write-down in the carrying value of a psychiatric hospital owned by the Company and leased to an unaffiliated third party which is currently in default under the terms of the lease agreement, a $1.4 million write down recorded against the book value of the real property of a psychiatric hospital, and $1.3 million of expenses related to the disposition of a non-strategic business. Included in the $8.8 million of nonrecurring charges recorded in 1993 is a $4.4 million loss on disposal of two acute care facilities divested during the fourth quarter of 1993 and $4.4 million related to the winding down or disposition of non-strategic businesses.

Depreciation and amortization expense increased $2.8 million in 1994 over 1993 due primarily to $1.9 million in such expenses related to the Company's acquisition of ambulatory treatment centers and the increased depreciation expense related to capital expenditures and expansions made in the Company's acute care division. Depreciation and amortization expense decreased approximately $9.5 million in 1993 as compared to 1992, due primarily to a $13.5 million amortization charge in 1992 resulting from the revaluation of certain goodwill balances. Partially offsetting this decrease was a $2.4 million increase in depreciation and amortization expense related to the Company's acquisitions of outpatient treatment centers.

Interest expense decreased 27% in 1994 as compared to 1993 and 24% in 1993 as compared to 1992 due to lower average outstanding borrowings.

The effective tax rate was 39%, 32% and 51%, in 1994, 1993 and 1992, respectively. The increase in the effective tax rate for 1994 as compared to 1993 was due to the 1993 tax provision containing a reduction in the state tax provision. The reduction in the effective tax rate in 1993 as compared to 1992, in addition to the reduction in the state tax provision mentioned above, was attributable to the above mentioned $13.5 million goodwill amortization recorded in the 1992 period, which was not deductible for income tax purposes.

GENERAL TRENDS

An increased proportion of the Company's revenue is derived from fixed payment services, including Medicare and Medicaid which accounted for 44%, 43% and 39% of the Company's net patient revenues during 1994, 1993 and 1992, respectively, excluding the additional revenues from special Medicaid reimbursement programs. The Company expects the Medicare and Medicaid revenues to continue to increase as a larger portion of the general population qualifies for coverage as a result of the aging of the population and expansion of state Medicaid programs. The Medicare program reimburses the Company's hospitals primarily based on established rates by a diagnosis related group for acute care hospitals and by a cost based formula for psychiatric hospitals.

In addition to the Medicare and Medicaid programs, other payers continue to actively negotiate the amounts they will pay for services performed. In general, the Company expects the percentage of its business from managed care programs, including HMOs and PPOs 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.

HEALTHCARE REFORM

In addition to the trends described above that continue to have an impact on operating results, there are a number of other, more general factors affecting the Company's business. The Company and the healthcare industry as a whole face increased uncertainty with respect to the level of payer payments because of national and state efforts to reform healthcare. These efforts include proposals at all levels of government to contain healthcare costs while making quality, affordable health services available to more Americans. The Company is unable to predict which proposals, if any, will be adopted or the resulting implications for providers at this time. However, the Company believes that the delivery of primary care, emergency care, obstetrical and psychiatric services will be an integral component of any strategy for controlling healthcare costs and it also believes it is well positioned to provide these services.

INFLATION

The healthcare industry is very labor intensive and salaries and benefits are subject to inflationary pressures, as are supply costs which tend to escalate as vendors pass on the rising costs through price increases. Although the Company cannot predict its ability to continue to cover future costs increases, management believes that through the adherence to cost containment policies, labor management and reasonable price increases, the effects of inflation, which has not had a material impact on the results of operations during the last three years, 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 may be limited since although these fixed payments rates are indexed for inflation annually, the increases have historically lagged behind actual inflation.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $60.6 million, $84.6 million and $81.7 million for 1994, 1993 and 1992, respectively. The $24.0 million decrease in 1994 as compared to 1993 was primarily attributable to an increase in the number of days of revenues in accounts receivable, acceleration in the payment of income taxes and an increase in the payments made in settlement of the Company's self-insurance reserves. The unfavorable change in the outstanding accounts receivable was caused by a temporary decline in cash collections due to information system conversions at the Company's hospitals. During each of the past three years, the net cash provided by operating activities substantially exceeded the scheduled maturities of long-term debt. Acquisitions totalled $25.8 million for businesses and assets held for lease in 1994 compared with $11.5 million for businesses in 1993. During 1994, the Company invested in additional outpatient treatment centers and a 112-bed acute care hospital located in Edinburg, Texas. In connection with the acquisition of the Edinburg facility, the Company committed to invest at least an additional $30 million to renovate the existing facility and construct an additional facility over the next three years. The Company expects to continue to invest in the acquisition and development of outpatient surgery and radiation centers in 1995 at a level comparable to 1994. During the fourth quarter of 1994, the Company signed letters of intent to acquire a 225-bed acute and psychiatric care hospital in Aiken, South Carolina and a 512-bed acute care hospital in Bradenton, Florida in exchange for approximately $200 million in cash and two acute care facilities. The closing of these transactions are subject to a number of conditions.

Operating results of the hospital located in Edinburg have been included in the financial statements only from the date of acquisition. Assuming the above Edinburg, Aiken and Bradenton acquisitions had been completed as of January 1, 1994, the unaudited pro forma net revenues and net income would have been $952 million and $32 million, respectively. In addition, the unaudited pro forma earnings per share would have been $2.25. The unaudited pro forma financial information may not be indicative of results that would have been reported if the acquisitions had occurred at the beginning of 1994 and may not be indicative of future operating results. Capital expenditures, excluding capital leases, were $44.0 million in 1994, $47.3 million in 1993 and $33.2 million in 1992. Capital expenditures in 1995 are expected to be approximately $33.3 million for capital equipment and renovations of existing facilities. Additionally, capital expenditures are expected for new projects at existing hospitals and medical office buildings to total approximately $36.0 million in 1995. The estimated cost to complete major construction projects in progress at December 31, 1994 is approximately $12.3 million. The Company believes that its capital expenditure program is adequate to expand, improve and equip its existing hospitals. Total debt as a percentage of total capitalization was 26% at December 31, 1994 and 1993 down from 37% at December 31, 1992. The 1994 and 1993 year-end ratios are the lowest since the Company went public in 1981.

During 1994 the Company increased its commercial paper facility from $25 million to $50 million. The facility is a daily valued program which is secured by patient accounts receivable. The Company has sufficient patient receivables to support a larger program, and upon the mutual consent of the Company and the participating lending institutions, the commitment can be increased. At December 31, 1994 there were $38.5 million of borrowings outstanding under this facility.

During 1994, the Company entered into an unsecured $125 million non-amortizing revolving credit agreement which matures in August of 1999. The agreement contains a provision whereby 50% of the net consideration, in excess of $25 million, from the disposition of assets will be applied to reduce commitments. At December 31, 1994, the Company had $125 million of unused borrowing capacity, and there were no borrowings outstanding under this revolving credit agreement.

The Company has entered into interest rate swap agreements to reduce the impact of changes in interest rates on its floating rate debt. At December 31, 1994, the Company had interest rate swap agreements with commercial banks having a total notional principal amount of $30 million. These agreements call for the payment of interest at a fixed rate by the Company in return for the payment by the commercial banks of a variable rate interest, which effectively fixes the Company's interest rate on a portion of its floating rate debt at 11.9%. The interest rate swap agreements in the amounts of $20 million and $10 million expire in January, 1995 and March, 1996, respectively. The effective interest rate on the Company's revolving credit and demand notes and commercial paper program including interest rate swap expense was 16.1%, 13.9% and 11.2% during 1994, 1993 and 1992, respectively. The corresponding effective interest rates not including interest rate swap expense were 7.9%, 4.6% and 5.5% including commitment fees during 1994, 1993 and 1992, respectively. Additional interest expense recorded as a result of the Company's hedging activity was $1,981,000, $3,160,000 and $4,158,000 in 1994, 1993 and 1992, respectively. The Company is exposed to credit loss in the event of non-performance by the other parties to the interest rate swap agreements. These counterparties are major financial institutions and the Company does not anticipate nonperformance by the counterparties, which are rated AA or better by Moody's Investors Service. The cost to terminate the net swap obligations at December 31, 1994 and 1993 was approximately $2,133,000 and $4,870,000, 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, the commercial paper facility or the issuance of long-term securities. The Company is currently negotiating an increase to its revolving credit agreement.

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 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."

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

None.

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, 1994. 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, 1994.

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, 1994.

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, 1994.

PART IV

ITEM 14. 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 on page 20.

(B) REPORTS ON FORM 8-K

None

(C) EXHIBITS

3.1 Restated Certificate of Incorporation, as amended, previously filed as Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1983, Exhibit 3.2 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1985, and Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1987, 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.

9. Stockholders Agreement, dated September 26, 1985, among Alan B. Miller, Thomas L. Kempner, Sidney Miller, Anthony Pantaleoni and George H. Strong, previously filed as Exhibit 9 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1985, is incorporated herein by reference.

9.1 Amendment No. 1, dated as of November 1, 1989, to Stockholders Agreement, dated September 26, 1985, among Alan B. Miller, Thomas L. Kempner, Sidney Miller, Anthony Pantaleoni and George H. Strong, previously filed as Exhibit 9.1 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1989, is incorporated herein by reference.

10.1 Amended and Restated Credit Agreement, dated as of August 21, 1992 among Universal Health Services, Inc., Certain Participating Banks, and Morgan Guaranty Trust Company of New York, as Agent, previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1992, is incorporated herein by reference.

10.2 Restated Purchase Agreement, dated June 22, 1981, among Registrant, its preferred stockholders and certain of its officers, previously filed as Exhibit 10.10 to Registration Statement No. 2-72393 on Form S-1, is incorporated herein by reference.

10.3 Restated Employment Agreement, dated as of July 14, 1992, by and between Registrant and Alan B. Miller, previously filed as Exhibit 10.3 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by reference.

10.4 Form of Employee Stock Purchase Agreement for Restricted Stock Grants, previously filed as Exhibit 10.12 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1985, is incorporated herein by reference.

10.5 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.

10.6 Agreement, effective January 1, 1995, to renew Advisory Agreement, dated as of December 24, 1986, between Universal Health Realty Income Trust and UHS of Delaware, Inc.

10.7 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.

10.8 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.

10.9 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.

10.10 1989 Non-Employee Director Stock Option Plan, previously filed as Exhibit 10.23 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1989, is incorporated herein by reference.

10.11 1990 Employees' Restricted Stock Purchase Plan, previously filed as Exhibit 10.24 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1990, is incorporated herein by reference.

10.12 1992 Corporate Ownership Program, previously filed as Exhibit 10.24 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1991, is incorporated herein by reference.

10.13 1992 Stock Bonus Plan, previously filed as Exhibit 10.25 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1991, is incorporated herein by reference.

10.14 1992 Stock Option Plan, previously filed as Exhibit 10.16 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, is incorporated herein by reference.

10.15 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.

10.16 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.

10.17 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.

10.18 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.

10.19 Amendment No. 1 to the 1989 Non-Employee Director Stock Option Plan, previously filed as Exhibit 10.20 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by reference.

10.20 Amendment No. 1 to the 1992 Stock Bonus Plan, previously filed as Exhibit 10.21 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by reference.

10.21 1994 Executive Incentive Plan, previously filed as Exhibit 10.22 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by reference.

10.22 Credit Agreement, dated as of August 2, 1994, among Universal Health Services, Inc., Certain Participating Banks, and Morgan Guaranty Trust Company of New York, as Agent, previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, is incorporated herein by reference.

10.23 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.

10.24 Amended and Restated 1989 Non-Employee Director Stock Option Plan.

10.25 1992 Stock Option Plan, as Amended.

11. Statement re: computation of per share earnings.

22. Subsidiaries of Registrant.

24. Consent of Independent Public Accountants.

27. Financial Data Schedule.

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.

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.

By: /s/ ALAN B. MILLER

Alan B. Miller
President

March 22, 1995

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 22, 1995
/s/ SIDNEY MILLER Sidney Miller	Secretary and Director	March 24, 1995
/s/ LEONARD W. CRONKHITE, JR., MD Leonard W. Cronkhite, Jr., MD	Director	March 24, 1995
/s/ ANTHONY PANTALEONI Anthony Pantaleoni	Director	March 24, 1995
/s/ MARTIN MEYERSON Martin Meyerson	Director	March 23, 1995
/s/ ROBERT H. HOTZ Robert H. Hotz	Director	March 24, 1995
/s/ JOHN H. HERRELL John H. Herrell	Director	March 24, 1995
/s/ KIRK E. GORMAN Kirk E. Gorman	Senior Vice President and Chief Financial Officer	March 21, 1995

UNIVERSAL HEALTH SERVICES, INC.
INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE

(ITEM 14(A))

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, 1994 and 1993, 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, 1994. These consolidated financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 consolidated 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, 1994 and 1993, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the Index to Financial Statements and Financial Statement Schedule is presented for the purpose of complying with the Securities and Exchange Commission's rules and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Philadelphia, Pennsylvania
February 16, 1995

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Year Ended December 31

	1994	1993	1992
Net revenues	$782,199,000	$761,544,000	$731,227,000
Operating charges			
Operating expenses	298,108,000	299,645,000	285,922,000
Salaries and wages	286,297,000	280,041,000	265,017,000
Provision for doubtful accounts	58,347,000	55,409,000	45,008,000
Depreciation & amortization	42,383,000	39,599,000	49,059,000
Lease and rental expense	34,097,000	34,281,000	33,854,000
Interest expense, net	6,275,000	8,645,000	11,414,000
Nonrecurring charges	9,763,000	8,828,000	--
Total operating charges	735,270,000	726,448,000	690,274,000
Income before income taxes	46,929,000	35,096,000	40,953,000
Provision for income taxes	18,209,000	11,085,000	20,933,000
Net income	$ 28,720,000	$ 24,011,000	$ 20,020,000
Earnings per common & common share equivalents (fully diluted)	$ 2.02	$ 1.71	$ 1.43
Weighted average number of common shares and equivalents	14,389,000	14,819,000	14,970,000

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Assets	December 31 1994	December 31 1993
Current Assets		
Cash and cash equivalents	$ 780,000	$ 569,000
Accounts receivable, net of allowance of $34,957,000 in 1994 and $28,444,000 in 1993 for doubtful accounts	84,818,000	78,605,000
Supplies	15,723,000	12,617,000
Deferred income taxes	12,942,000	7,733,000
Other current assets	4,126,000	2,475,000
Total current assets	118,389,000	101,999,000
Property and Equipment		
Land	34,159,000	29,026,000
Buildings and improvements	314,545,000	284,510,000
Equipment	218,844,000	191,483,000
Property under capital lease	24,782,000	18,937,000
	592,330,000	523,956,000
Less accumulated depreciation	265,059,000	231,509,000
	327,271,000	292,447,000
Construction in progress	4,372,000	9,985,000
	331,643,000	302,432,000
Other Assets		
Excess of cost over fair value of net assets acquired	38,762,000	38,089,000
Deferred income taxes	2,742,000	--
Deferred charges	1,527,000	1,697,000
Other	28,429,000	16,205,000
	71,460,000	55,991,000
	$521,492,000	$460,422,000

Liabilities and Common Stockholders' Equity	1994	1993
Current Liabilities		
Current maturities of long-term debt	$ 7,236,000	$ 4,313,000
Accounts payable	37,185,000	34,038,000
Accrued liabilities		
Compensation and related benefits	20,208,000	16,565,000
Interest	2,442,000	3,247,000
Other	32,294,000	25,789,000
Federal and state taxes	4,417,000	2,547,000
Total current liabilities	103,782,000	86,499,000
Deferred Income Taxes	--	3,863,000
Other Noncurrent Liabilities	71,956,000	70,491,000
Long-Term Debt	85,125,000	75,081,000
Commitments and Contingencies		
Common Stockholders' Equity		
Class A Common Stock, voting, $.01 par value; authorized 12,000,000 shares; issued and outstanding 1,090,527 shares in 1994 and 1,139,123 in 1993	11,000	11,000
Class B Common Stock, limited voting, $.01 par value; authorized 50,000,000 shares; issued and outstanding 12,591,854 shares in 1994 and 12,171,454 in 1993	126,000	122,000
Class C Common Stock, voting, $.01 par value; authorized 1,200,000 shares; issued and outstanding 109,622 shares in 1994 and 114,482 in 1993	1,000	1,000
Class D Common Stock, limited voting, $.01 par value; authorized 5,000,000 shares; issued and outstanding 22,769 shares in 1994 and 26,223 in 1993	--	--
Capital in excess of par value, net of deferred compensation of $414,000 in 1994 and $291,000 in 1993	88,295,000	80,878,000
Retained earnings	172,196,000	143,476,000
	260,629,000	224,488,000
	$521,492,000	$460,422,000

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, 1994 1993, and 1992

	Class A Common	Class B Common	Class C Common	Class D Common	Capital in Excess of Par Value	Retained Earnings	Total
Balance January 1, 1992 ..	$14,000	$121,000	$ 2,000	$ 1,000	$ 84,770,000	$ 99,445,000	$184,353,000
Common Stock							
Issued	--	--	--	--	1,134,000	--	1,134,000
Converted	(2,000)	4,000	(1,000)	(1,000)	--	--	--
Repurchased	--	(2,000)	--	--	(2,924,000)	--	(2,926,000)
Amortization of deferred compensation	--	--	--	--	361,000	--	361,000
Cancellation of stock grant	--	--	--	--	(39,000)	--	(39,000)
Net income	--	--	--	--	--	20,020,000	20,020,000
Balance January 1, 1993 ..	12,000	123,000	1,000	--	83,302,000	119,465,000	202,903,000
Common Stock							
Issued	--	1,000	--	--	518,000	--	519,000
Converted	(1,000)	1,000	--	--	--	--	--
Repurchased	--	(3,000)	--	--	(3,233,000)	--	(3,236,000)
Amortization of deferred compensation	--	--	--	--	333,000	--	333,000
Cancellation of stock grant	--	--	--	--	(42,000)	--	(42,000)
Net income	--	--	--	--	--	24,011,000	24,011,000
Balance January 1, 1994 ..	11,000	122,000	1,000	--	80,878,000	143,476,000	224,488,000
Common Stock							
Issued	--	9,000	--	--	20,308,000	--	20,317,000
Repurchased	--	(5,000)	--	--	(13,144,000)	--	(13,149,000)
Amortization of deferred compensation	--	--	--	--	277,000	--	277,000
Cancellation of stock grant	--	--	--	--	(24,000)	--	(24,000)
Net income	--	--	--	--	--	28,720,000	28,720,000
Balance December 31, 1994	$11,000	$126,000	$ 1,000	--	$ 88,295,000	$172,196,000	$260,629,000

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

	1994	1993	1992
Cash Flows from Operating Activities:			
Net income	$ 28,720,000	$ 24,011,000	$ 20,020,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	42,383,000	39,599,000	49,059,000
Provision for self-insurance reserves	10,810,000	20,755,000	21,193,000
Other non-cash charges	9,763,000	8,828,000	--
Changes in assets and liabilities, net of effects from acquisitions and dispositions:			
Accounts receivable	(4,380,000)	12,928,000	7,608,000
Accrued interest	(805,000)	(412,000)	(256,000)
Accrued and deferred income taxes	(9,944,000)	(8,990,000)	(9,955,000)
Other working capital accounts	1,710,000	4,858,000	3,960,000
Other assets and deferred charges	(3,064,000)	(5,804,000)	(2,120,000)
Other	(42,000)	1,002,000	620,000
Payments made in settlement of self-insurance claims	(14,527,000)	(12,135,000)	(8,398,000)
Net cash provided by operating activities	60,624,000	84,640,000	81,731,000
Cash Flows from Investing Activities:			
Property and equipment additions	(43,998,000)	(47,319,000)	(33,244,000)
Disposition of assets	1,132,000	227,000	2,652,000
Acquisition of properties previously leased	(5,771,000)	(3,218,000)	--
Acquisition of businesses	(16,794,000)	(11,526,000)	(7,188,000)
Acquisition of assets held for lease	(9,059,000)	--	--
Disposition of businesses	3,791,000	18,492,000	12,355,000
Other investments	(1,079,000)	--	--
Net cash used in investing activities	(71,778,000)	(43,344,000)	(25,425,000)
Cash Flows from Financing Activities:			
Additional borrowings	45,469,000	1,800,000	15,375,000
Reduction of long-term debt	(21,981,000)	(46,496,000)	(85,900,000)
Issuance of common stock	1,026,000	519,000	1,134,000
Repurchase of common shares	(13,149,000)	(3,236,000)	(2,926,000)
Net cash provided by (used in) financing activities	11,365,000	(47,413,000)	(72,317,000)
Increase (Decrease) in Cash and Cash Equivalents	211,000	(6,117,000)	(16,011,000)
Cash and Cash Equivalents, Beginning of Period	569,000	6,686,000	22,697,000
Cash and Cash Equivalents, End of Period	$ 780,000	$ 569,000	$ 6,686,000
Supplemental Disclosures of Cash Flow Information:			
Interest paid	$ 7,080,000	$ 9,057,000	$ 11,670,000
Income taxes paid, net of refunds	$ 28,153,000	$ 19,901,000	$ 31,086,000

Supplemental Disclosures of Noncash Investing and Financing Activities:

See Notes 2, 3 and 6

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

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Universal Health Services, Inc. (the "Company") is primarily engaged in owning and operating acute care and psychiatric hospitals and ambulatory treatment centers. The consolidated financial statements include the accounts of the Company, and its majority-owned subsidiaries and partnerships controlled by the Company as the managing general partner. All significant intercompany accounts and transactions have been eliminated. The more significant accounting policies follow:

Net Revenues: Net revenues are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. These net revenues are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Medicare and Medicaid net revenues represented 44%, 43% and 39% of net patient revenues for the years 1994, 1993 and 1992, respectively, excluding the additional revenues from special Medicaid reimbursement programs described in Note 9.

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.

Depreciation is provided on the straight-line method over the estimated useful lives of buildings and improvements (twenty to forty years) and equipment (five to fifteen years).

Other Assets: The excess of cost over fair value of net assets acquired in purchase transactions, net of accumulated amortization of $52,261,000 in 1994 and $47,663,000 in 1993 is amortized using the straightine method over periods ranging from five to forty years. During 1992 the Company recorded a $13.5 million charge to amortization expense due to a revaluation of certain goodwill balances.

During 1994, the Company established an employee life insurance program covering approximately 2,500 employees. At December 31, 1994, the cash surrender value of the policies ($41.3 million) was recorded net of related loans ($41.0 million) and is included in other assets.

Long-Lived Assets: It is the Company's policy to review the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If such review indicates that the carrying value of the asset is not recoverable, it is the Company's policy to reduce the carrying amount of such assets to fair value.

Earnings per Common and Common Share Equivalents: 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 1994, 1993 and 1992 earnings per share have been adjusted to reflect the assumed conversion of the Company's convertible debentures. In April 1994, the Company redeemed the debentures which reduced the fully diluted number of shares outstanding by 451,233.

Income Taxes: The Company and its subsidiaries file consolidated Federal tax returns. 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 and workers' compensation reserves and minority interests in majority owned subsidiaries and partnerships.

Statement of Cash Flows: For purposes of the consolidated statements of cash flows, 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 $266,000, $498,000 and $515,000 in 1994, 1993 and 1992, respectively.

Interest Rate Swap Agreements: In managing interest rate exposure, the Company at times enters into interest rate swap agreements. When interest rates change, the differential to be paid or received is accrued as interest expense and is recognized over the life of the agreements.

Reclassifications: Certain prior year amounts have been reclassified to conform with the current year's presentation.

2) ACQUISITIONS, DISPOSITIONS AND CLOSURES

1994 -- During 1994 the Company purchased majority interests in two separate partnerships which own and operate outpatient surgery facilities. One of these partnerships was merged with an existing partnership in which the Company held a majority ownership. The Company also agreed to manage the operations of, and purchased a majority interest in, three separate partnerships which lease fixed assets to four radiation therapy centers located in Kentucky. In addition, the Company purchased one radiation center and majority interests in two separate partnerships which own and operate radiation therapy centers. Total consideration for these acquisitions was $14.5 million in cash, and the assumption of liabilities totalling $3.0 million.

In November 1994, the Company acquired a 112-bed acute care hospital located in Edinburg, Texas for net cash of approximately $11.3 million and the assumption of liabilities totalling $2.2 million. In connection with this acquisition, the Company committed to invest at least an additional $30 million, over a four year period, to renovate the existing facility and construct an additional facility.

During the fourth quarter of 1994, the Company signed a letter of intent to acquire a 225-bed acute and psychiatric care hospital located in Aiken, South Carolina in exchange for a 104-bed acute care hospital, a 126-bed acute and psychiatric care hospital and cash. The majority of the real estate assets of the 126-bed facility are currently being leased from Universal Health Realty Income Trust (the "Trust") pursuant to the terms of an operating lease which expires in 2000. The Company anticipates exchanging additional real estate assets with the Trust as consideration for the purchase of the real estate assets of this facility (See Note 8). The closing of this transaction, which is expected to be completed during the second quarter of 1995, is subject to a number of conditions including regulatory approval. As a result of this transaction a $4.3 million charge is included in the 1994 consolidated statement of income.

Also during the fourth quarter of 1994, the Company signed a letter of intent to acquire a 512-bed acute care hospital located in Bradenton, Florida. The closing of this transaction is subject to a number of conditions. Although management does not expect to close this transaction until the second quarter of 1995, the Company began to manage the hospital in January, 1995 under a separate management contract. Total cash consideration for the Aiken and Bradenton acquisitions is expected to approximate $200 million.

Operating results of the hospital located in Edinburg have been included in the financial statements only from the date of acquisition. Assuming the above Edinburg, Aiken and Bradenton acquisitions had been completed as of January 1, 1994 the unaudited pro forma net revenues and net income would have been $952 million and $32 million, respectively. In addition, the unaudited pro forma earnings per share would have been $2.25. The unaudited pro forma financial information may not be indicative of results that would have been reported if the acquisitions had occurred at the beginning of 1994 and may not be indicative of future operating results.

1993 -- During 1993 the Company purchased a radiation therapy center and majority interests in four separate partnerships which own and operate ambulatory surgery facilities for $11.5 million in cash and the assumption of liabilities totaling $300,000.

During the fourth quarter, the Company sold the operations and fixed assets of a 124-bed acute care hospital for approximately $7.8 million in cash. The Company also sold the operations and certain fixed assets of a 134-bed acute care hospital for cash of $1.5 million. Concurrently, the Company sold certain related real property to Universal Health Realty Income Trust (the "Trust"), an affiliate and the lessor of this 134-bed acute care hospital, for $1 million in cash and a note receivable of $900,000 (see Note 8). In connection with this transaction, the Company's lease with the Trust for this property was terminated. The disposition of these two facilities resulted in a pre-tax loss of $4.4 million ($2.2 million after tax), which is included in nonrecurring charges in the 1993 consolidated statement of income.

Also during 1993, the Company recorded a pre-tax charge of $4.4 million related to the winding down or disposition of other non-strategic businesses which is included in nonrecurring charges in the 1993 consolidated statement of income.

1992 -- During 1992 the Company purchased majority interests in four separate partnerships which own and operate ambulatory surgery facilities for $7.2 million in cash and the assumption of liabilities totaling $5.4 million.

Also during 1992, the Company discontinued operations at a 96-bed acute care hospital and sold the fixed assets of this facility for $3.4 million. The closing and sale of this hospital did not have a material impact on the consolidated financial statements.

3) LONG-TERM DEBT

A summary of long-term debt follows:

	December 31	
	1994	1993
Long-term debt:		
Notes payable (including obligations under capitalized leases of $14,004,000 in 1994 and $12,132,000 in 1993) with varying maturities through 2001; weighted average interest at 6.9% in 1994 and 7.0% in 1993 (see Note 6 regarding capitalized leases)	$19,442,000	$13,727,000
Mortgages payable, interest at 6.0% to 11.0% with varying maturities through 2000	3,745,000	3,811,000
Revolving credit and demand notes	8,950,000	4,600,000
Commercial paper	38,500,000	--
Revenue bonds:		
interest at floating rates ranging from 5.5% to 6.9% and one at a fixed	18,200,000	18,200,000
rate of 8.3% at December 31, 1994 with varying maturities through 2015	3,524,000	9,151,000
Subordinated debt	--	29,905,000
	92,361,000	79,394,000
Less-Amounts due within one year	7,236,000	4,313,000
	$85,125,000	$75,081,000

During 1994, the Company increased its commercial paper facility from $25 million to $50 million. The facility is a daily valued program which is secured by patient accounts receivable. The Company has sufficient patient receivables to support a larger program, and upon the mutual consent of the Company and the participating lending institutions, the commitment can be increased. A fee of .76% is required on this $50 million commitment. Outstanding amounts of commercial paper that can be refinanced through available borrowings under the Company's revolving credit agreement are classified as long-term.

The Company entered into an unsecured $125 million non-amortizing revolving credit agreement in 1994 which matures in August of 1999 and provides for interest, at the Company's option, at the prime rate, certificate of deposit rate plus 5/8% to 1 1/8% or Euro-dollar plus 1/2% to 1%. A fee ranging from 1/8% to 3/8% is required on the unused portion of this commitment. The margins over the certificate of deposit, the Euro-dollar rates and the commitment fee are based upon leverage and coverage ratios. At December 31, 1994 the applicable margins over the certificate of deposit and the Euro-dollar rate were 7/8% and 3/4%, respectively, and the commitment fee was 1/4%. There are no compensating balance requirements. The agreement contains a provision whereby 50% of the net consideration, in excess of $25 million, from the disposition of assets will be applied to reduce commitments. At December 31, 1994, the Company had $125 million of unused borrowing capacity, and there were no borrowings outstanding under this revolving credit agreement.

The average amounts outstanding during 1994, 1993 and 1992 under the revolving credit and demand notes and commercial paper program were $16,324,000, $25,069,000 and $47,318,000, respectively, with corresponding effective interest rates of 7.9%, 4.6% and 5.5% including commitment fees. The maximum amounts outstanding at any month-end were $47,450,000, $46,800,000 and $91,650,000 during 1994, 1993 and 1992 respectively.

The Company has entered into interest rate swap agreements to reduce the impact of changes in interest rates on its floating rate revolving credit and demand notes and commercial paper program. At December 31, 1994, the Company had two interest rate swap agreements with commercial banks having a total notional principal amount of $30 million. These agreements call for the payment of interest at a fixed rate by the Company in return for the payment by the commercial banks of a variable rate interest, which effectively fixes the Company's interest rate on a portion of its floating rate debt at 11.9%. The interest rate swap agreements in the amounts of $20 million and $10 million expire in January, 1995 and March, 1996, respectively. The effective interest rate on the Company's revolving credit and demand notes and commercial paper program including interest rate swap expense was 16.1%, 13.9% and 11.2% during 1994, 1993 and 1992, respectively. Additional interest expense recorded as a result of the Company's hedging activity was $1,981,000, $3,160,000 and $4,158,000 in 1994, 1993 and 1992, respectively. The Company is exposed to credit loss in the event of non-performance by the counterparties to the interest rate swap agreements. These counterparties are major financial institutions and the Company does not anticipate nonperformance by the counterparties which are rated AA or better by Moody's Investors Service. The cost to terminate the swap obligations at December 31, 1994 and 1993, was approximately $2,133,000 and $4,870,000, respectively.

Covenants relating to long-term debt require maintenance of a minimum net worth, specified debt to total capital, debt to EBITDA and fixed charge coverage ratios. Covenants also limit the Company's ability to incur additional senior debt and to pay cash dividends and repurchase its shares and limit capital expenditures, among other restrictions.

During 1994, the Company called its 71/2% subordinated convertible debentures due 2008. Approximately $11 million of the debentures were redeemed in cash and $19 million were converted to the Company's class B stock.

Substantially all of the Company's accounts receivable are pledged as collateral to secure debt.

The fair value of the Company's long-term debt at December 31, 1994 was approximately equal to its carrying value.

The Company is currently negotiating an increase to its revolving credit agreement. In connection with this transaction and other potential debt transactions to finance the acquisitions discussed in Note 2, the Company has entered into two options for interest rate swap agreements to become effective June, 1995, with a notional amount of $75 million and expiration dates in 2005.

Aggregate maturities follow:

1995	$ 7,236,000
1996	5,721,000
1997	4,540,000
1998	2,647,000
1999	48,733,000
Later	23,484,000
Total	$92,361,000

4) COMMON STOCK

During 1994 and 1993, the Company repurchased 509,800 and 224,800 shares of Class B Common Stock respectively at an average purchase price of $25.79 and $14.39 per share, respectively, or an aggregate of approximately $13.2 million and $3.2 million, respectively. All repurchases during 1994 were made subsequent to March 1, 1994. The Company's ability to repurchase its shares is limited by long-term debt covenants to $50 million plus 50% of cumulative net income since March, 1994. Under the terms of these covenants, the Company had the ability to repurchase an additional $61.6 million of its Common Stock as of December 31, 1994. The repurchased shares are treated as retired.

At December 31, 1994 2,598,439 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, 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.

In 1994, the Company adopted a Stock Compensation Plan which was approved by the Board of Directors. Under the terms of the Stock Compensation Plan, shares may be granted to key employees of the Company and to consultants and independent contractors. Shares may not be granted to officers or directors of the Company. The Plan will terminate on November 16, 2004, unless terminated sooner by the Board.

At December 31, 1994 the Company has reserved 50,000 shares of its Class B Common Stock for the Stock Compensation Plan. In 1994, 1,800 shares were issued.

In 1992, the Company adopted a Stock Bonus Plan and a Stock Ownership Plan, both of which were approved by the stockholders at the 1992 annual meeting. Under the terms of the Stock Bonus Plan, eligible employees may elect to receive all or part of their annual bonuses in shares of restricted stock (the "Bonus Shares"). Those electing to receive Bonus Shares also receive additional restricted shares in an amount equal to 20% of their Bonus Shares (the "Premium Shares"). Restrictions on one-half of the Bonus Shares and one-half of the Premium Shares lapse after one year and the restrictions on the remaining shares lapse after two years. The Company has reserved 150,000 shares of Class B Common Stock for this plan and has issued 58,178 shares at December 31, 1994.

Under the terms of the Stock Ownership Plan, eligible employees may purchase shares of common stock, directly from the Company, at the market price. The Company will loan each eligible employee an amount equal to 90% of the purchase price for the shares. The loans, which are partially recourse to the employee, bear interest at the applicable Federal rate and are due five years from the purchase date. Shares purchased under this plan are restricted from sale or transfer. Restrictions on one-half of the shares lapse after one year and restrictions on the remaining shares lapse after two years. The Company has reserved 100,000 shares of Class B Common Stock for this plan. As of December 31, 1994, 31,234 shares were sold under the terms of this plan.

The Company also has a Restricted Stock Purchase Plan which allows eligible participants to purchase shares of Class B Common Stock at par value, subject to certain restrictions. Under the terms of this plan, 300,000 shares of Class B Common Stock have been reserved for purchase by officers, key employees and consultants. The restrictions lapse as to one-third of the shares on the third, fourth and fifth anniversary dates of the purchase. The Company has issued 153,513 shares under this plan, of which 41,336 and 45,000 became fully vested during 1994 and 1993, respectively. Compensation expense, based on the difference between the market price on the date of purchase and par value, is being amortized over the restriction period and was $148,000 in 1994, $240,000 in 1993, $265,000 in 1992.

Stock options to purchase Class B Common Stock have been granted to officers, key employees and directors of the Company under various plans. During 1994, subject to shareholder approval, the Board of Directors approved a 600,000 share increase in the reserve for Class B Common Stock available for grant, pursuant to the terms of the 1992 Stock Option Plan. 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.

Information with respect to these options is summarized as follows:

Outstanding Options	Number of Shares	Average Option Price
Balance, January 1, 1992 ..	148,002	$ 7.80
Granted	135,000	$12.72
Exercised	(78,487)	$ 6.82
Cancelled	(4,340)	$12.67
Balance, January 1, 1993 ..	200,175	$11.40
Granted	7,400	$14.88
Exercised	(40,238)	$ 7.23
Cancelled	(3,000)	$12.50
Balance, January 1, 1994 ..	164,337	$12.53
Granted	560,750	$22.05
Exercised	(15,988)	$10.98
Cancelled	(5,500)	$16.64
Balance, December 31, 1994	703,599	$20.12

Options for 299,350 shares, subject to shareholder approval as described above, were available for grant at December 31, 1994. At December 31, 1994, options for 71,801 shares of Class B Common Stock with an aggregate purchase price of $893,445 (average of $12.44 per share) were exercisable.

5) INCOME TAXES

Components of income tax expense are as follows:

	Year Ended December 31		
	1994	1993	1992
Currently payable			
Federal	$ 27,014,000	$17,315,000	$ 28,495,000
State	3,009,000	1,136,000	3,949,000
	30,023,000	18,451,000	32,444,000
Deferred			
Federal	(10,412,000)	(6,482,000)	(10,110,000)
State	(1,402,000)	(884,000)	(1,401,000)
	(11,814,000)	(7,366,000)	(11,511,000)
Total	$ 18,209,000	$11,085,000	$ 20,933,000

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. The net effect of the impact of the 1993 tax law changes on the 1993 current and deferred tax provisions was immaterial.

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	
	1994	1993
Self-insurance reserves	$ 28,944,000	$ 29,134,000
Doubtful accounts and other reserves	9,921,000	6,270,000
State income taxes	(126,000)	(1,546,000)
Other deferred tax assets	382,000	491,000
Depreciable and amortizable assets	(17,319,000)	(22,434,000)
Conversion from cash basis to accrual basis of accounting	(5,017,000)	(7,634,000)
Other deferred tax liabilities	(1,101,000)	(411,000)
Total deferred taxes	$ 15,684,000	$ 3,870,000

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

	Year Ended December 31		
	1994	1993	1992
Federal statutory rate	35.0%	35.0%	34.0%
Nondeductible (deductible) depreciation, amortization and other	1.6	(3.9)	13.0
State taxes, net of Federal income tax benefit	2.2	0.5	4.1
Effective tax rate	38.8%	31.6%	51.1%

In 1994 and 1993, the Company reviewed its deferred state tax balances and as a result reduced its tax provision by $390,000 and $780,000, respectively. The net deferred tax assets and liabilities are comprised as follows:

	Year Ended December 31	
	1994	1993
Current deferred taxes		
Assets	$ 16,622,000	$ 10,723,000
Liabilities	(3,680,000)	(2,990,000)
Total deferred taxes-current	12,942,000	7,733,000
Noncurrent deferred taxes		
Assets	22,625,000	25,172,000
Liabilities	(19,883,000)	(29,035,000)
Total deferred taxes-noncurrent	2,742,000	(3,863,000)
Total deferred taxes	$ 15,684,000	$ 3,870,000

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 and the change in accounting method. 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. The Company has not provided a valuation allowance since management believes that all of the deferred tax assets will be realized through the reversal of temporary differences that result in deferred tax liabilities and through expected future taxable income.

6) LEASE COMMITMENTS

Certain of the Company's hospital and medical office facilities and equipment are held under operating or capital leases which expire through 2013 (See Note 8). 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:

	December 31 1994	December 31 1993
Land, buildings and equipment .	$23,697,000	$18,937,000
Less: accumulated amortization	10,426,000	6,400,000
	$13,271,000	$12,537,000

Future minimum rental payments under lease commitments with a term of more than one year as of December 31, 1994 are as follows:

Year	Capital Leases	Operating Leases
1995	$ 5,581,000	$ 23,693,000
1996	4,716,000	21,011,000
1997	3,363,000	18,371,000
1998	1,618,000	17,012,000
1999	381,000	16,405,000
Later Years	--	36,536,000
Total minimum rental	$15,659,000	$133,028,000
Less: Amount representing interest ...	1,655,000	
Present value of minimum rental commitments	14,004,000	
Less: Current portion of capital lease obligations	4,729,000	
Long-term portion of capital lease obligations	$ 9,275,000	

Capital lease obligations of $4,654,000, $5,371,000, $7,310,000 in 1994, 1993 and 1992 respectively, were incurred when the Company entered into capital leases for new equipment.

7) COMMITMENTS AND CONTINGENCIES

The Company is self-insured for its general liability risks for claims limited to $5 million per occurrence and for its professional liability risks for claims limited to $25 million per occurrence. Coverage in excess of these limits up to $100 million is maintained with major insurance carriers. During 1994 and 1993, the Company purchased a general and professional liability occurrence policy with a commercial insurer for one of its larger acute care facilities. This policy includes coverage up to $25 million per occurrence for general and professional liability risks.

As of December 1994 and 1993, the reserve for professional and general liability risks was $62.4 million and $65.2 million, respectively, of which $11.0 million in 1994 and $8.3 million in 1993 is included in current liabilities. Self-insurance reserves are based upon actuarially determined estimates.

The Company has outstanding letters of credit totalling $20 million related to the Company's self-insurance programs ($11.0 million), as support for various debt instruments ($.4 million) and as support for a loan guarantee for an unaffiliated party ($8.6 million). The Company has also guaranteed approximately $2 million of loans.

During 1994, the Company signed letters of intent to acquire a 512-bed acute care hospital located in Bra- denten, Flordia and a 225-bed acute and psychiatric care facility located in Aiken, South Carolina. These transactions, which are subject to a number of conditions, are expected to be completed during the second quarter of 1995. In addition to the exchange of certain real estate assets, the total cash consideration for these acquisitions is expected to approximate $200 million. Additionally, the Company is committed to invest at least an additional $30 million, over a four year period, to renovate the existing facility and construct an additional facility related to its 1994 acquisition of a 112-bed acute care hospital located in Edinburg, Texas. (See Note 2).

The Company estimates the cost to complete major construction projects in progress at December 31, 1994 will approximate $12.3 million.

The Company has entered into a long-term contract with a third party to provide certain data processing services for its acute care and psychiatric hospitals. This contract expires in 1999.

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.

8) RELATED PARTY TRANSACTIONS

At December 31, 1994, the Company held approximately 8% of the outstanding shares of Universal Health Realty Income Trust (the "Trust"). Certain officers and directors of the Company are also officers and/or Directors of the Trust. The Company accounts for its investment in the Trust using the equity method of accounting. The Company's pre-tax share of income/(loss) from the Trust was $1,095,000, $757,000 and ($110,000) in 1994, 1993 and 1992 respectively, and is included in net revenues in the accompanying consolidated statements of income. The carrying value of this investment at December 31, 1994 and 1993 was $8,404,000 and $7,375,000, respectively and is included in other assets in the accompanying consolidated balance sheets. The market value of this investment at December 31, 1994 and 1993 was $11,261,000 and $10,352,000, respectively.

During 1993, pursuant to the terms of its lease with the Trust, the Company purchased the real property of a 48-bed psychiatric hospital located in Texas for $3.2 million. The real property of this hospital was previously leased by the Company and base rental payments continued under the existing lease until the date of sale. Operations at this hospital were discontinued during the first quarter of 1992, however, the facility is currently being utilized for outpatient services at one of the Company's acute care hospitals. Also during 1993, the Company sold to the Trust certain real estate assets of a 134-bed hospital located in Illinois for approximately $1.9 million. These assets consisted of additions and improvements made to the facility by the Company since the sale of the major portion of the real estate assets to the Trust in 1986. The operations of this facility were sold during 1993 to an operator unaffiliated with the Company.

As of December 31, 1994, the Company leased eight hospital facilities from the Trust with initial terms expiring in 1999 through 2003. These leases contain up to six 5-year renewal options. Future minimum lease payments to the Trust are included in Note 6. 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 (See Note 2). Total rent expense under these operating leases was $15,700,000 in 1994, $16,600,000 in 1993 and $17,000,000 in 1992. The Company received an advisory fee of $909,000 in 1994, $880,000 in 1993 and $913,000 in 1992 from the Trust for investment and administrative services provided under a contractual agreement which is included in net revenues in the accompanying consolidated statements of income.

In connection with various stock based compensation plans, $118,000 and $405,000 of loans made to cer tain officers and key employees were forgiven in 1994 and 1992, respectively, and charged to compensation expense.

At January 1, 1992, the Company had a non-interest bearing demand note from a principal officer which was fully forgiven during 1992. Compensation expense charged to operations related to this note was $393,000 in 1992.

A member of the Company's Board of Directors is a partner in the law firm used by the Company as its principal outside counsel.

9) QUARTERLY RESULTS (UNAUDITED)

The following tables summarize the Company's quarterly financial data for the two years ended December 31, 1994.

1994	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net revenues	$194,432,000	$192,199,000	$191,512,000	$204,056,000
Income before income taxes	$ 16,794,000	$ 13,357,000	$ 9,622,000	$ 7,156,000
Net income	$ 10,287,000	$ 8,153,000	$ 5,835,000	$ 4,445,000
Earnings per share (fully diluted)	$ 0.72	$ 0.57	$ 0.41	$ 0.32

Net revenues in 1994 include $12.4 million of additional revenues received from special Medicaid reimbursement programs. Of this amount, $3.0 million was recorded in each of the first and second quarters, $3.1 million in the third quarter and $3.3 million in the fourth quarter. These programs are scheduled to terminate in August, 1995. These amounts were recorded in the periods that the Company met all of the requirements to be entitled to these reimbursements. Net revenues in the fourth quarter also include $3.0 million of proceeds related to the Company's previously disposed UK operations. The first quarter operating results also include approximately $1.3 million of expenses related to the disposition of a non-strategic business. The second quarter results include a $2.8 million write-down recorded against the book value of the real property of a psychiatric hospital owned by the Company and leased to an unaffiliated third party, which is currently in default under the terms of the lease. Also included in operating expenses during the second quarter is a $1.1 million favorable adjustment made to reduce the Company's workers compensation reserves. The fourth quarter results include a $1.3 million write-down recorded against the book value of the real property of a psychiatric hospital owned by the Company and for which its lease was terminated by an unaffiliated third party and a $4.3 million charge related to the anticipated disposition of two acute care hospitals. (See Note 2).

1993	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net revenues	$195,305,000	$187,453,000	$186,332,000	$192,454,000
Income before income taxes	$ 13,120,000	$ 9,735,000	$ 7,503,000	$ 4,738,000
Net income	$ 8,611,000	$ 6,478,000	$ 5,157,000	$ 3,765,000
Earnings per share (fully diluted)	$ 0.60	$ 0.46	$ 0.37	$ 0.28

Net revenues in 1993 include $13.5 million of additional revenues received from special Medicaid reim- bursement programs. Of the amount received, $4.6 million was recorded in each of the first and second quarters, $1.0 million was recorded in the third quarter and $3.3 million was recorded in the fourth quarter. These amounts were recorded in the periods that the Company met all of the requirements to be entitled to these reimbursements. The first quarter operating results also include approximately $4.1 million of expenses related to the disposition of ancillary businesses and the second quarter operating results include a $3.2 million increase in the reserves for the Company's self-insurance programs. Net revenues in the third quarter include $3.0 million of unfavorable adjustments related to prior year reimbursement issues and the fourth quarter operating results includes a $4.7 million pre-tax loss on disposal of two acute care hospitals and the winding down or disposition of non-strategic businesses. The Company's effective tax rate in the fourth quarter was significantly lower than other quarters due to the disposition of two acute care hospitals resulting in the recoupment of previously non-deductible charges.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Acquisitions of Businesses	Write-Off of Uncollectible Accounts	Balance at End of Period
ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE:					
Year ended December 31, 1994	$28,444,000	$58,347,000	$ --	$(51,834,000)	$34,957,000
Year ended December 31, 1993	$27,257,000	$55,409,000	$ --	$(54,222,000)	$28,444,000
Year ended December 31, 1992	$25,166,000	$45,008,000	$ --	$(42,917,000)	$27,257,000

INDEX TO EXHIBITS

10.6 Agreement, effective January 1, 1995, to renew Advisory Agreement, dated as of December 24, 1986, between Universal Health Realty Income Trust and UHS of Delaware, Inc.

10.24 Amended and Restated 1989 Non-Employee Director Stock Option Plan.

10.25 1992 Stock Option Plan, As Amended.

11. Statement re: computation of per share earnings.

22. Subsidiaries of Registrant.

24. Consent of Independent Public Accountants.

27. Financial Data Schedule.

January 10, 1995

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 1, 1994, 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, 1995, upon the same terms and conditions. Please acknowledge UHS of Delaware, Inc.'s acceptance of this offer by signing in the space provided below and returning one copy of this letter to me.

Sincerely yours,

/s/ Kirk E. Gorman

Kirk E. Gorman
President and Secretary

KEG/jds

cc: Warren J. Nimetz, Esquire
Charles Boyle

Agreed to and Accepted:

UHS of Delaware, Inc.

By: /s/ Alan B. Miller

Alan B. Miller, President

AMENDED AND RESTATED 1989 NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN

1. Purpose. This Non-Qualified Stock Option Plan, known as the Amended and Restated 1989 Non-Employee Director Stock Option Plan (hereinafter, the "Plan"), is intended to promote the interests of Universal Health Services, Inc. (hereinafter, the "Company") by facilitating its ability to obtain and retain the services of qualified persons who are neither employees nor officers of the Company to serve as members of the Board of Directors and to demonstrate the Company's appreciation for their service upon the Company's Board of Directors.

2. Rights to be Granted. Under the Plan, options are granted that give an Optionee the right for a specified time period to purchase a specified number of shares of Class B Common Stock, par value $0.01, of the Company ("Shares"). The option price is determined in each instance in accordance with the terms of the Plan.

3. Available Shares. The total number of Shares for which options may be granted shall not exceed twenty five thousand (25,000) shares subject to adjustment in accordance with Section 13 hereof. Shares subject to the Plan are authorized but unissued shares or shares that were once issued and subsequently reacquired by the Company. If any options granted under the Plan are surrendered before excercise or lapse without exercise, in whole or in part, the shares reserved therefor revert to the option pool and continue to be available for grant under the Plan.

4. Administration. The Plan shall be administered by the members of the Board of Directors who are not eligible to participate in the Plan, and all references herein to a Committee shall thereby be deemed to refer to such members of the Board of Directors. The Committee shall, subject to the provisions of the Plan and Section 14 hereof in particular, have the power to construe the Plan, to determine all questions thereunder, and to adopt and amend such rules and regulations for the administration of the Plan as it may deem desirable.

5. Option Agreement. Each option granted under the provisions of this Plan shall be evidenced by an Option Agreement, in such form as may be approved by the Board, which Agreement shall be duly executed and delivered on behalf of the Company and by the Optionee to whom such option is granted. The Agreement shall contain such terms, provisions, and conditions not inconsistent with the Plan as may be determined by the Board.

6. Eligibility and Limitations. Options may be granted pursuant to the Plan only to non-employee members of the Board of Directors of the Company who are not officers of the Company and only on one occasion with respect to any such member. No options granted under the Plan shall confer upon any director the right to continue as a director of the Company or affect the right of the stockholders of the Company to remove any director in accordance with the Company's Restated Certificate of Incorporation and Delaware law.

7. Option Price. The purchase price of the stock covered by an option granted pursuant to the Plan shall be 100% of the fair market value of such shares on the day the option is granted. The option price will be subject to adjustment in accordance with the provisions of Section 13 hereof. For purposes of the Plan, the fair market value of a share of Class B Common Stock on any day shall be the last reported sales price of such share on the last day preceding the date the option is granted as listed on the New York Stock Exchange, or if there were no such trades on such day the last reported sales price of such share on the New York Stock Exchange on the last preceding day on which it was traded.

8. Automatic Grant of Options. Each member of the Company's Board of Directors who is neither an employee nor an officer of the Company serving on the date of the approval of the Amendment of the Plan by the Board of Directors is automatically granted on such approval date without further action by the Board an option to purchase two thousand five hundred (2,500) shares of the Company's Class B Common Stock. Each person who is first elected to the Board of Directors after the date of approval of the Amendment of the Plan by the Board of Directors and who is at that time neither an employee nor an officer of the Company shall be automatically granted, without further action by the Board of Directors, an option to purchase two thousand five hundred (2,500) shares of the Company's Class B Common Stock.

9. Period of Option. The options granted hereunder shall expire on a date which is five (5) years after the date of grant of the options and the Plan shall terminate when all options granted hereunder have terminated.

10. Exercise of Option. Subject to the terms and conditions of the Plan and the Option Agreement, an option granted hereunder shall, to the extent then exercisable, be exercisable in whole or in part by giving written notice to the Company by mail or in person addressed to Secretary, Universal Health Services, Inc., Universal Corporate Center, 367 South Gulph Road, King of Prussia, Pennsylvania 19406, stating the number of shares with respect to which the option is being exercised, accompanied by payment in full for such shares. Upon notification from the Company, the Transfer Agent shall, on behalf of the Company, prepare a certificate or certificates representing such shares acquired pursuant to exercise of the option, shall register the Optionee as the owner of such shares on the books of the Company and shall cause the fully executed certificate(s) representing such shares to be delivered to the Optionee as soon as practicable after payment of the option price in full. The holder of an option shall not have any rights of a shareholder with respect to the shares covered by the option, except to the extent that one or more certificates for such shares shall be delivered to him upon the due exercise of the option.

11. Vesting of Shares and Non-Transferability of Options.

(a) Vesting. Options granted under the Plan shall vest in the Optionee and thus become exercisable at the rate of 25% per year, commencing one year after the date of grant.

The shares subject to this option as to which this option may at any particular time not be exercised pursuant to this subsection (a) are referred to herein as the "Unvested Shares".

The number of shares as to which the option may be exercised shall be cumulative, so that once the option shall become exercisable as to any shares it shall continue to be exercisable as to said shares, until expiration or termination of the option as provided in the Plan.

(b) Legend on Certificates. The certificates representing such shares shall carry such appropriate legend, and such written instructions shall be given to the Company's Transfer Agent, as may be deemed necessary or advisable by counsel to the Company in order to comply with the requirements of the Securities Act of 1933 or any state securities laws.

(c) Non-Transferability. Any option granted pursuant to the Plan shall not be assignable or transferable other than by will or the laws of descent and distribution, and shall be exercisable during the Optionee's lifetime only by him.

12. Termination of Option Rights.

(a) In the event an Optionee ceases to be a member of the Board of Directors of the Company for any reason other than death or disability, any then-unexercised option granted to such Optionee shall, to the extent not then exercisable, immediately terminate and become void, and any option which is then exercisable but has not been exercised at the time the Optionee so ceases to be a member of the Board of Directors may be exercised, to the extent it is then exercisable, by the Optionee within a period of ten (10) days following such time the Optionee so ceases to be a member of the Board of Directors, but in no event later than the expiration date of the option.

(b) In the event that an Optionee ceases to be a member of the Board of Directors of the Company by reason of his or her disability or death, any option granted to such Optionee shall be immediately and automatically accelerated and become fully vested and any unexercised option shall be exercisable by the Optionee (or by the Optionee's personal representative, heir or legatee, in the event of death) during the period ending one year after the date the Optionee so ceases to be a member of the Board of Directors, but in no event later than the expiration date of the option.

13. Adjustments Upon Changes in Capitalization and Other Matters. In the event that the outstanding shares of the Class B Common Stock of the Company are changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of a stock split, combination of shares or dividends payable in capital stock, automatic adjustment shall be made in the number and kind of shares as to which outstanding options or portions thereof then unexercised shall be exercisable and in the available shares set forth in Section 3 hereof, to the end that the proportionate interest of the option holder shall be maintained as before the occurrence of such event. Such adjustment in outstanding options shall be made without change in the total price applicable to the unexercised portion of such options and with a corresponding adjustment in the option price per shares. In the case of a merger, sale of assets or similar transaction which results in a replacement of the Company's Class B Common Stock with stock of another corporation, the Company will make a reasonable effort, but shall not be required, to replace any outstanding options granted under the Plan with comparable options to purchase stock of such other corporation or to provide for immediate maturity of all outstanding options, with all options not being exercised within the time period specified by the Board of Directors being terminated.

If an option hereunder shall be assumed, or a new option substituted therefor, as a result of sale of the Company, whether by a merger, consolidation or sale of property or stock, then membership on the Board of Directors of such assuming or substituting corporation or by a parent corporation or a subsidiary therefor shall be considered for purposes of an option to be membership on the Board of Directors of the Company.

14. Termination and Amendment of Plan. The Board may at any time terminate the Plan or make such modification or amendment thereof as it deems advisable. Termination or any modification or amendment of the Plan shall not, without consent of a participant, affect his rights under an option previously granted to him.

15. Non-Staturory Plan. The options granted hereunder are not intended to qualify as "incentive stock options" complying with Section 422A of the Internal Revenue Code of 1986, as amended.

UNIVERSAL HEALTH SERVICES, INC.
1992 STOCK OPTION PLAN, AS AMENDED

1. Purpose. The purpose of the Universal Health Services, Inc. 1992 Stock Option Plan (the "Plan") is to enable Universal Health Services, Inc. (the "Company") and its stockholders to secure the benefits of common stock ownership by key personnel of the Company and its subsidiaries. The Board of Directors of the Company (the "Board") believes that the granting of options under the Plan will foster the Company's ability to attract, retain and motivate those individuals who will be largely responsible for the continued profitability and long-term future growth of the Company.

2. Stock Subject to the Plan. The Company may issue and sell a total of 1,000,000 shares of its Class B Common Stock, $.01 par value (the "Common Stock"), pursuant to the Plan. Such shares may be either authorized and unissued or held by the Company in its treasury. New options may be granted under the Plan with respect to shares of Common Stock which are covered by the unexercised portion of an option which has terminated or expired by its terms, by cancellation or otherwise.

3. Administration. The Plan will be administered by a committee (the "Committee") consisting of at least two directors appointed by and serving at the pleasure of the Board. If a Committee is not so established, the Board will perform the duties and functions ascribed herein to the Committee. To the extent required by the applicable provisions of Rule 16(b)-3 under the Securities Exchange Act of 1934, no member of the Committee shall have received an option under the Plan or any other plan within one year before his or her appointment or such other period as may be prescribed by said Rule. Subject to the provisions of the Plan, the Committee, acting in its sole and absolute discretion, will have full power and authority to grant options under the Plan, to interpret the provisions of the Plan and option agreements made under the Plan, to supervise the administration of the Plan, and to take such other 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 decision of the Committee as to any disputed question, including questions of construction, interpretation and administration, will be final and conclusive on all persons. The Committee will keep a record of its proceedings and acts and will keep or caused to be kept such books and records as may be necessary in connection with the proper administration of the Plan.

4. Eligibility. Options may be granted under the Plan to present or future key employees of the Company or a subsidiary of the Company (a "Subsidiary") within the meaning of Section 424(f) of the Internal Revenue Code of 1986 (the "Code"), and to consultants to the Company or a Subsidiary who are not employees. Options may not be granted to directors of the Company or a Subsidiary who are not also employees of or consultants to the Company and/or

a Subsidiary. Subject to the provisions of the Plan, the Committee may from time to time select the persons to whom options will be granted, and will fix the number of shares covered by each such option and establish the terms and conditions thereof (including, without limitation, exercise price and restrictions on exercisability of the option or on the shares of Common Stock issued upon exercise thereof). Notwithstanding anything to the contrary contained herein no person may receive grants of options to purchase more than 200,000 shares in any one calendar year.

5. Terms and Conditions of Options. Each option granted under the Plan will be evidenced by a written agreement in a form approved by the Committee. Each such option will be subject to the terms and conditions set forth in this paragraph and such additional terms and conditions not inconsistent with the Plan as the Committee deems appropriate.

(a) Option Period. The period during which an option may be exercised will be fixed by the Committee and will not exceed 10 years from the date the option is granted.

(b) Exercise of Options. An option may be exercised by transmitting to the Company (1) a written notice specifying the number of shares to be purchased, and (2) payment of the exercise price (or, if applicable, delivery of a secured obligation therefor), together with the amount, if any, deemed necessary by the Committee to enable the Company to satisfy its income tax withholding obligations with respect to such exercise (unless other arrangements acceptable to the Company are made with respect to the satisfaction of such withholding obligations).

(c) Payment of Exercise Price. The purchase price of shares of Common Stock acquired pursuant to the exercise of an option granted under the Plan may be paid in cash and/or such other form of payment as may be permitted under the option agreement, including, without limitation, previously-owned shares of Common Stock. The Committee may permit the payment of all or a portion of the purchase price in installments (together with interest) over a period of not more than 5 years.

(d) Rights as a Stockholder. No shares of Common Stock will be issued in respect of the exercise of an option granted under the Plan until full payment therefor has been made (and/or provided for where all or a portion of the purchase price is being paid in installments). The holder of an option will have no rights as a stockholder with respect to any shares covered by an option until the date a stock certificate for such shares is issued to him or her. Except as otherwise provided herein, no adjustments shall be made for dividends or distributions of other rights for which the record date is prior to the date such stock certificate is issued.

(e) Nontransferability of Options. No option granted under the Plan may be assigned or transferred except by will or by the applicable laws of descent and distribution; and each such option may be exercised during the optionee's lifetime only by the optionee.

(f) Termination of Employment or Other Service. Unless otherwise provided by the Committee in its sole discretion, if an optionee ceases to be employed by or to perform services for the Company and any Subsidiary for any reason other than death or disability (defined below), then each outstanding option granted to him or her under the Plan will terminate on the date of termination of employment or service (or, if earlier, the date specified in the option agreement). Unless otherwise provided by the Committee in its sole discretion, if an optionee's employment or service is terminated by reason of the optionee's death or disability (or if the optionee's employment or service is terminated by reason of his or her disability and the optionee dies within one year after such termination of employment or service), then each outstanding option granted to the optionee under the Plan will terminate on the date one year after the date of such termination of employment or service (or one year after the later death of a disabled optionee) or, if earlier, the date specified in the option agreement. For purposes hereof, the term "disability" means the inability of an optionee to perform the customary duties of his or her employment or other service for the Company or a Subsidiary by reason of a physical or mental incapacity which is expected to result in death or be of indefinite duration.

(g) Other Provisions. The Committee may impose such other conditions with respect to the exercise of options, including, without limitation, any conditions relating to the application of federal or state securities laws, as it may deem necessary or advisable.

6. Capital Changes, Reorganization, Sale.

(a) Adjustments Upon Changes in Capitalization. The aggregate number and class of shares for which options may be granted under the Plan, the maximum number of shares for which options may be granted to any person in any one calendar year, the number and class of shares covered by each outstanding option and the exercise price per share shall all be adjusted proportionately for any increase or decrease in the number of issued shares of Common Stock resulting from a split-up or consolidation of shares or any like capital adjustment, or the payment of any stock dividend.

(b) Cash, Stock or Other Property for Stock. Except as provided in subparagraph (c) below, upon a merger (other than a merger of the Company in which the holders of Common Stock immediately prior to the merger have the same proportionate ownership of Common Stock in the surviving corporation immediately after the merger), consolidation, acquisition of property or stock, separation, reorganization (other than a mere reincorporation or the creation of a holding company) or liquidation of the Company, as a result of which the Stockholders of the Company receive cash, stock or other property in exchange for or in connection with their shares of Common Stock, any option granted hereunder shall terminate, but the optionee shall have the right immediately prior to any such merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation to exercise his or her option in whole or in part to the extent permitted by the option agreement, and, if the Committee in its sole discretion shall determine, may exercise the option whether or not the vesting requirements set forth in the option agreement have been satisfied.

(c) Conversion of Options on Stock for Stock Exchange. If the Stockholders of the Company receive capital stock of another corporation ("Exchange Stock") in exchange for their shares of Common Stock in any transaction involving a merger (other than a merger of the Company in which the holders of Common Stock immediately prior to the merger have the same proportionate ownership of Common Stock in the surviving corporation immediately after the merger), consolidation, acquisition of property or stock, separation or reorganization (other than a mere reincorporation or the creation of a holding company), all options granted hereunder shall be converted into options to purchase shares of Exchange Stock unless the Company and the corporation issuing the Exchange Stock, in their sole discretion, determine that any or all such options granted hereunder shall not be converted into options to purchase shares of Exchange Stock but instead shall terminate in accordance with the provisions of subparagraph (b) above. The amount and price of converted options shall be determined by adjusting the amount and price of the options granted hereunder in the same proportion as used for determining the number of shares of Exchange Stock the holders of the Common Stock receive in such merger, consolidation, acquisition of property or stock, separation or reorganization. The Board shall determine in its sole discretion if the converted options shall be fully vested whether or not the vesting requirements set forth in the option agreement have been satisfied.

(d) Fractional Shares. In the event of any adjustment in the number of shares covered by any option pursuant to the provisions hereof, any fractional shares resulting from such adjustment will be disregarded and each such option will cover only the number of full shares resulting from the adjustment.

(e) Determination of Board to be Final. All adjustments under this paragraph 6 shall be made by the Board, and its determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive.

7. Amendment and Termination of the Plan. The Board may amend or terminate the Plan. Except as otherwise provided in the Plan with respect to equity changes, any amendment which would increase the aggregate number of shares of Common Stock as to which options may be granted under the Plan, materially increase the benefits under the Plan, or modify the class of persons eligible to receive options under the Plan shall be subject to the approval of the Stockholders of the Company.

No amendment or termination may affect adversely any outstanding option without the written consent of the optionee.

8. No Rights Conferred. Nothing contained herein will be deemed to give any individual any right to receive an option under the Plan or to be retained in the employ or service of the Company or any Subsidiary.

9. Governing Law. The Plan and each option agreement shall be governed by the laws of the State of Delaware.

10. Term of the Plan. The Plan shall be effective as of July 15, 1992, the date on which it was adopted by the Board, subject to the approval of the stockholders of the Company at the next Annual Meeting of Stockholders. The Plan will terminate on July 15, 2002, unless sooner terminated by the Board. The rights of optionees under options outstanding at the time of the termination of the Plan shall not be affected solely by reason of the termination and shall continue in accordance with the terms of the option (as then in effect or thereafter amended).

UNIVERSAL HEALTH SERVICES, INC.
and Subsidiaries
Computation of Earnings Per Share

Exhibit 11

	Year Ended December 31,		
	1994	1993	1992
Weighted Average Shares:			
Class A common	1,139,123	1,211,850	1,386,267
Class B common	12,171,454	12,276,146	12,148,177
Class C common	114,482	121,755	149,165
Class D common	26,223	28,648	49,853
Total	13,451,282	13,638,399	13,733,462
Less: Effect of shares repurchsed	(103,510)	(105,795)	(58,274)
Less: Incremental number of shares of restricted stock excluded from EPS computation	(35,643)	(46,893)	(59,096)
Effect of shares issued	641,984	10,250	26,788
	13,954,113	13,495,961	13,642,880
Common Stock Equivalents:			
Assumed conversion of 7 1/2% convertible debentures issued in April 1983	338,818	1,271,471	1,274,653
Assumed conversion of options to purchase common stock	95,999	51,101	52,784
Weighted average shares - fully diluted	14,388,930	14,818,533	14,970,317
Income:	$28,719,735	$24,010,645	$20,019,839
Interest expense, net of tax effect, on assumed conversion of 7 1/2% convertible debentures	$363,176	$1,392,404	$1,420,699
Income Applicable to Common Stock - Fully Diluted	$29,082,911	$25,403,049	$21,440,538
Earnings per Common and Common Equivalent Share:			
Fully diluted -	$2.02	$1.71	$1.43

Subsidiaries of the Company

Name of Subsidiary	Jurisdiction of Incorporation
ASC of Canton, Inc.	Georgia
ASC of Chicago, Inc.	Illinois
ASC of Corona, Inc.	California
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 Palm Springs, Inc.	California
ASC of Ponca City, Inc.	Oklahoma
ASC of Springfield, Inc.	Missouri
ASC of St. George, Inc.	Utah
Aiken Regional Medical Centers, Inc.	South Carolina
Auburn General Hospital, Inc.	Washington
The BridgeWay, Inc.	Arkansas
Children's Hospital of McAllen, Inc.	Texas
Comprehensive Occupational and Clinical Health, Inc.	Delaware
Dallas Family Hospital, Inc.	Texas
Del Amo Hospital, Inc.	California
Doctors' General Hospital, Ltd. (d/b/a Universal Medical Center)	Florida
Doctors' Hospital of Shreveport, Inc.	Louisiana

Name of Subsidiary	Jurisdiction of Incorporation
Eye West Laser Vision, L.P.	Delaware
Forest View Psychiatric Hospital, Inc.	Michigan
Glen Oaks Hospital, Inc.	Texas
Health Care Finance & Construction Corp.	Delaware
HRI Clinics, Inc.	Massachusetts
HRI Hospital, Inc.	Massachusetts
Hope Square Surgical Center, L.P. (d/b/a Surgery Centers of the Desert)	Delaware
Inland Valley Regional Medical Center, Inc.	California
La Amistad Residential Treatment Center, Inc.	Florida
Manatee Memorial Hospital, L.P.	Delaware
McAllen Medical Center, Inc.	Texas
Meridell Achievement Center, Inc.	Texas
Merion Building Management, Inc.	Delaware

New Albany Outpatient Surgery, L.P. (d/b/a Surgical Center of New Albany)	Delaware
Northern Nevada Medical Center, L.P. (d/b/a Northern Nevada Medical Center)	Delaware
Panorama Community Hospital, Inc.	Delaware
The Pavilion Foundation	Illinois
Relational Therapy Clinic, Inc.	Louisiana
River Crest Hospital, Inc.	Texas
River Oaks, Inc.	Louisiana

Name of Subsidiary	Jurisdiction of Incorporation
River Parishes Internal Medicine, Inc.	Louisiana
Southwest Dallas Hospital, Inc.	Texas
Sparks Family Hospital, Inc.	Nevada
St. George Surgical Center, L.P. (d/b/a St. George Surgery Center)	Delaware
Surgery Center of Canton, L.P.	Delaware
Surgery Center of Chicago, L.P.	Delaware
Surgery Center of Corona, L.P. (d/b/a Surgery Center of Corona)	Delaware
Surgery Center of Littleton, L.P. (d/b/a Littleton Day Surgery Center)	Delaware
Surgery Center of Midwest City, L.P. (d/b/a MD Physicians Surgicenter of Midwest City)	Delaware
Surgery Center of Odessa, L.P. (d/b/a Surgery Center of Texas)	Delaware
Surgery Center of Ponca City, L.P. (d/b/a Outpatient Surgical Center of Ponca City)	Delaware
Surgery Center of Springfield, L.P. (d/b/a Surgery Center of Springfield)	Delaware
Surgery Center of Waltham, Limited Partnership (d/b/a Surgery Center of Waltham)	Massachusetts
Tonopah Health Services, Inc.	Nevada
Turning Point Care Center, Inc. (d/b/a Turning Point Hospital)	Georgia
Two Rivers Psychiatric Hospital, Inc.	Delaware
UHS of Belmont, Inc.	Delaware

Name of Subsidiary	Jurisdiction of Incorporation
UHS of Bethesda, Inc.	Delaware
UHS of Columbia, Inc.	District of Columbia
UHS Croyden Limited	United Kingdom
UHS of DeLaRonde, Inc.	Louisiana
UHS of Delaware, Inc.	Delaware
UHS of Florida, Inc.	Florida
UHS Holding Company, Inc.	Nevada
UHS of Illinois, Inc.	Illinois
UHS International, Inc.	Delaware
UHS International Limited	United Kingdom
UHS/IPA, Inc.	New York
UHS Las Vegas Properties, Inc.	Nevada
UHS Leasing Company, Inc.	Delaware
UHS Leasing Company, Limited	United Kingdom
UHS of London, Inc.	Delaware
UHS London Limited	United Kingdom
UHS of Manatee, Inc.	Florida
UHS of New Orleans, Inc. (d/b/a Chalmette Hospital and River Parishes Hospital)	Louisiana
UHS of New York, Inc.	New York
UHS of Odessa, Inc.	Texas
UHS of Plantation, Inc.	Florida

Name of Subsidiary	Jurisdiction of Incorporation
UHSR Corporation	Delaware
UHS Receivables Corp.	Delaware
UHS of River Parishes, Inc.	Louisiana
UHS of Riverton, Inc.	Washington
UHS of Vermont, Inc.	Vermont
UHS of Waltham, Inc.	Massachusetts
Universal HMO, Inc.	Nevada
Universal Health Network, Inc.	Nevada
Universal Health Pennsylvania Properties, Inc.	Pennsylvania
Universal Health Recovery Centers, Inc. (d/b/a UHS KeyStone Center)	Pennsylvania
Universal Health Services of Cedar Hill, Inc.	Texas
Universal Health Services of Concord, Inc.	California
Universal Treatment Centers, Inc.	Delaware
Valley Hospital Medical Center, Inc.	Nevada
Valley Surgery Center, L.P.	Delaware
Victoria Regional Medical Center, Inc.	Texas
Wellington Regional Medical Center Incorporated	Florida
Westlake Medical Center, Inc.	California

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports, included in this Form 10-K, into the Company's previously filed Registration Statements on Forms S-8 (No. 2-80903), (No. 2-98913), (No. 33-43276), (No. 33-49426), (No. 33-49428), (No. 33-51671), and (No. 33-56575).

ARTHUR ANDERSEN LLP

Philadelphia, PA
March 27, 1995

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Universal Health Services, Inc.
1,000
U.S. Dollars
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JAN-01-1994
DEC-31-1994
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$2.02