# FORM 10-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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(MARK ONE)

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

For the fiscal year ended December 31, 2000

OR

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

For the transition period from to

Commission File No. 1-10765

UNIVERSAL HEALTH SERVICES, INC.

(Exact name of registrant as specified in its charter)

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|---|---|
| Delaware | 23-2077891 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| UNIVERSAL CORPORATE CENTER<br>367 South Gulph Road P.O. Box 61558<br>King of Prussia, Pennsylvania | |
| (Address of principal executive offices) | 19406-0958<br>(Zip Code) |

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

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

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

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

Class D Common Stock, $.01 par value

(Title of each Class)

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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 January 31, 2001, was 1,924,443, 27,787,574, 193,924, and 22,025, respectively.

The aggregate market value of voting stock held by non-affiliates at January 31, 2001 $2,239,231,586. (For the purpose of this calculation, it was assumed that Class A, Class C, and Class D Common Stock, which are not traded but are convertible share-for-share into Class B Common Stock, have the same market value as Class B Common Stock.)

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's definitive proxy statement for its 2001 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2000 (incorporated by reference under Part III).

# PART I

## ITEM 1. Business

The principal business of Universal Health Services, Inc. (together with its subsidiaries, the "Company") is owning and operating acute care hospitals, behavioral health centers, ambulatory surgery centers, radiation oncology centers and women's centers. Presently, the Company operates 59 hospitals, consisting of 23 acute care hospitals, 35 behavioral health centers, and a specialized women's health center in Arkansas, California, Delaware, the District of Columbia, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Massachusetts, Michigan, Mississippi, Missouri, Nevada, New Jersey, Oklahoma, Pennsylvania, Puerto Rico, South Carolina, Tennessee, Texas, Utah and Washington. The Company, as part of its Ambulatory Treatment Centers Division, owns outright, or in partnership with physicians, and operates or manages 25 surgery and radiation oncology centers located in 12 states and the District of Columbia.

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

The Company selectively seeks opportunities to expand its base of operations by acquiring, constructing or leasing additional hospital facilities. Such expansion may provide the Company with access to new markets and new health care delivery capabilities. The Company also seeks to increase the operating revenues and profitability of owned hospitals by the introduction of new services, improvement of existing services, physician recruitment and the application of financial and operational controls. Pressures to contain health care costs and technological developments allowing more procedures to be performed on an outpatient basis have led payors to demand a shift to ambulatory or outpatient care wherever possible. The Company is responding to this trend by emphasizing the expansion of outpatient services. In addition, in response to cost containment pressures, the Company intends to implement programs designed to improve financial performance and efficiency while continuing to provide quality care, including more efficient use of professional and paraprofessional staff, monitoring and adjusting staffing levels and equipment usage, improving patient management and reporting procedures and implementing more efficient billing and collection procedures. The Company also continues to examine its facilities and 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 states which require certificates of need (e.g., Washington, D.C.). Although the Company expects that some of these applications will result in the addition of new facilities or services to the Company's operations, no assurances can be made for ultimate success by the Company in these efforts.

### Recent and Proposed Acquisitions and Development Activities

In 2000, the Company proceeded with its development of new facilities and consummated a number of acquisitions.

In August 2000, the Company acquired the assets of St. Mary's Mercy Hospital, a full service hospital located in Enid, Oklahoma.

In August 2000, the Company, with approval from the U.S. Bankruptcy Court for the District of Delaware, acquired the assets of eleven behavioral health facilities with over 1,400 licensed beds from Charter Behavioral Health Systems, LLC and also acquired the real property assets from Crescent Real Estate Funding VII LP. The businesses and real estate acquired include Fairmount in Philadelphia, Pennsylvania; Rockford in Wilmington, Delaware; Anchor, Talbott, Laurel Heights and Peachford in Atlanta, Georgia; Ridge in Lexington, Kentucky; Carolina Center in Greenville, South Carolina; Lakeside in Memphis, Tennessee; Parkwood in Olive Branch, Mississippi; and Provo Canyon in Provo, Utah. In addition, the real estate of the closed Charter facility in McAllen, Texas was acquired from Crescent Real Estate.

In September 2000, the Company acquired the assets of Fort Duncan Medical Center, an acute care hospital in Eagle Pass, Texas. The Company expects to construct and open a replacement hospital within six years.

During the first quarter of 2001, the Company acquired the assets of: (i) Rancho Springs Medical Center, a 96-bed acute care hospital in Murrieta, California; (ii) Pembroke Hospital and Westwood Lodge Hospital, two hospitals that operate 215 beds and an outpatient clinic in greater Boston providing a full range of behavioral health treatment services; (iii) the 108-bed San Juan Capestrano Hospital located in Puerto Rico, and; (iv) the 60-bed McAllen Heart Hospital in McAllen, Texas.

The Company is building a 371 licensed bed replacement hospital for The George Washington University Hospital in Washington, D.C. The Company expects to complete the construction in the second quarter of 2002.

The Company is building a 176 licensed bed replacement hospital for Doctors Hospital of Laredo in Texas. The Company expects to complete the construction in the third quarter of 2001.

The Company is expanding Desert Springs Hospital in Las Vegas, Nevada to increase its licensed capacity from 233 to 349 beds. The Company expects to complete the expansion in the first quarter of 2001.

The Company commenced a renovation and expansion of Auburn Regional Medical Center in Auburn, Washington during the third quarter of 2000. The renovated and expanded facility will include a new operating room, emergency room, obstetrics department and approximately 40 additional licensed beds. The Company expects to complete this project in the first quarter of 2001.

## Bed Utilization and Occupancy Rates

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

| | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Average Licensed Beds: | | | | | |
| Acute Care Hospitals......... | 4,980 | 4,806 | 4,696 | 3,389 | 3,018 |
| Behavioral Health Centers.... | 2,612 | 1,976 | 1,782 | 1,777 | 1,565 |
| Average Available Beds(1): | | | | | |
| Acute Care Hospitals......... | 4,220 | 4,099 | 3,985 | 2,951 | 2,641 |
| Behavioral Health Centers.... | 2,552 | 1,961 | 1,767 | 1,762 | 1,540 |
| Admissions: | | | | | |
| Acute Care Hospitals......... | 214,771 | 204,538 | 187,833 | 128,020 | 111,244 |
| Behavioral Health Centers.... | 49,971 | 37,810 | 32,400 | 28,350 | 22,295 |
| Average Length of Stay (Days): | | | | | |
| Acute Care Hospitals......... | 4.7 | 4.7 | 4.7 | 4.8 | 4.9 |
| Behavioral Health Centers.... | 12.2 | 11.8 | 11.3 | 11.9 | 12.4 |
| Patient Days(2): | | | | | |
| Acute Care Hospitals......... | 1,017,646 | 963,842 | 884,966 | 616,965 | 546,237 |
| Behavioral Health Centers.... | 608,423 | 444,632 | 365,935 | 336,850 | 275,667 |
| Occupancy Rate--Licensed Beds(3): | | | | | |
| Acute Care Hospitals......... | 56% | 55% | 52% | 50% | 49% |
| Behavioral Health Centers.... | 64% | 62% | 56% | 52% | 48% |
| Occupancy Rate--Available Beds(3): | | | | | |
| Acute Care Hospitals......... | 66% | 64% | 61% | 57% | 57% |
| Behavioral Health Centers.... | 65% | 62% | 57% | 52% | 49% |

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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 to which other industry trends will continue or accelerate.

Sources of Revenue

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

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

McAllen Medical Center located in McAllen, Texas and Edinburg Regional Medical Center Located in Edinburg, Texas operate within the same market. On a combined basis, these two facilities contributed 12% in 2000, and 13% in both 1999 and 1998 of the Company's consolidated net revenues and 21% in 2000, 25% in 1999 and 23% in 1998 of the Company's consolidated earnings before depreciation, amortization, interest, income taxes and nonrecurring charges (after deducting an allocation of corporate overhead)("EBITDA"). During the first quarter of 1998, the Company contributed substantially all of the assets, liabilities and operations of Valley Hospital Medical Center and its newly-constructed Summerlin Hospital Medical Center in exchange for a 72.5% interest in a series of newly formed limited liability corporations ("LLCs"). Quorum Health Group, Inc. ("Quorum") holds the remaining 27.5% interest in the LLCs. Quorum obtained its interest by contributing substantially all of the assets, liabilities and operations of Desert Springs Hospital and $11 million of net cash to the LLCs. All three acute care facilities operate within the Las Vegas, Nevada market. On a combined basis, these three facilities contributed 18% of the Company's consolidated net revenues for the past three years and 14% in 2000, 10% in 1999 and 15% in 1998 of the Company's consolidated EBITDA. The decrease in the combined operating margins from 1998 to 1999 was primarily due to: (i) a capitation arrangement in place during 1999, in which the three facilities assumed a greater share of risk, and; (ii) collection issues resulting from continued delays in payments from managed care payors. The capitation agreement has been replaced by a standard per diem contract commencing in January, 2000.

The following table shows approximate percentages of net patient revenue derived by the Company's hospitals owned as of December 31, 2000, since their respective dates of acquisition by the Company from third party sources, including the additional Medicaid reimbursements received at five of the Company's acute care facilities located in Texas and one in South Carolina totaling $28.9 in 2000, $37.0 million in 1999, $36.5 million in 1998, $33.4 million in 1997 and $17.8 million in 1996, and from all other sources during the five years ended December 31, 2000.

| | PERCENTAGE OF NET PATIENT REVENUES | | | | |
|---|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 1997 | 1996 |
| Third Party Payors: | | | | | |
| Medicare............................... | 32.3% | 33.5% | 34.3% | 35.6% | 35.6% |
| Medicaid............................... | 11.5% | 12.6% | 11.3% | 14.5% | 15.3% |
| Managed Care (HMOs and PPOs)............ | 34.5% | 31.5% | 27.2% | 19.1% | N/A |
| Other Sources.......................... | 21.7% | 22.4% | 27.2% | 30.8% | 49.1% |
| Total.................................. | 100% | 100% | 100% | 100% | 100% |

N/A-Not available

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 formulas. The Company's general acute care hospitals are subject to a prospective payment system ("PPS"). For inpatient services, PPS pays hospitals a predetermined amount per diagnostic related group ("DRG") based upon a hospital's location and the patient's diagnosis. Beginning August 1, 2000, under a new outpatient prospective payment system ("OPPS") mandated by the Balanced Budget Act of 1997, both general acute and behavioral health hospital's outpatient services are paid a predetermined amount per Ambulatory Payment Classification ("APC") based upon a hospital's location and the procedures performed. The Medicare, Medicaid and SCHIP Balanced Budget Refinement Act of 1999 ("BBRA of 1999") provides for a "transitional corridor payments" through fiscal year 2003 which provides financial relief for any hospital that incurs a reduction to its Medicare outpatient reimbursement under the new OPPS.

Behavioral health facilities, which are excluded from PPS, are cost reimbursed by the Medicare program, but are subject to a per discharge ceiling, calculated based on an annual allowable rate of increase over the hospital's base year amount under the Medicare law and regulations. Capital related costs are exempt from this limitation. In the Balanced Budget Act of 1997, Congress significantly revised the Medicare payment provisions for PPS-excluded hospitals, including psychiatric hospitals. Effective for Medicare cost reporting periods beginning on or after October 1, 1997, different caps are applied to psychiatric hospitals' target amounts depending whether a hospital was excluded from PPS before or after that date. Congress also revised the rate-of-increase percentages for PPS-excluded hospitals and eliminated the new provider PPS-exemption for psychiatric hospitals. In addition, the Health Care Financing Administration has implemented requirements applicable to psychiatric hospitals that share a facility or campus with another hospital. The BBRA of 1999 requires that HCFA develop an inpatient psychiatric per diem prospective payment system effective for the federal fiscal year beginning October 1, 2002. This new prospective system will replace the current inpatient psychiatric payment system described above.

On August 30, 1991, the Health Care Financing Administration issued final Medicare regulations establishing a PPS 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 report years beginning on or after October 1, 1991. For most of the Company's hospitals, the new methodology began on January 1, 1992. In 2001, the tenth year of the phase-in, most UHS hospitals are paid by the Medicare program based on the national federal capital rate (three hospitals still receive hold harmless payments which are described below.)

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 a portion of old capital and an amount of new capital 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 hospital-specific 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 most of the Company's hospitals, is the year ended December 31, 1990. Updated amounts and factors necessary to determine PPS rates for Medicare hospital inpatient services for operating costs and capital related costs are published annually. In addition to the trends described above that continue to have an impact on the operating results, there are a number of other more general factors affecting the Company's business. The Balanced Budget Act of 1997 called for the government to trim the growth of federal spending on Medicare by $115 billion and on Medicaid by $13 billion over the next five years. The act also called for reductions in the future rate of increases to payments made to hospitals and reduced the amount of reimbursement for outpatient services, bad debt expense and capital costs. Some of these reductions were reversed with the passage on December 15, 2000 of the Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000, which will increase certain Medicare and Medicaid provider payments. It is possible that future budgets will contain certain further reductions or increases in the rate of increase of Medicare and Medicaid spending.

The Company can provide no assurances that the reductions in the PPS update, and other changes required by the Balanced Budget Act, will not adversely affect its operations. However, 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.

In addition to Federal health reform efforts, several states have adopted or are considering healthcare 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. The enactment of Medicaid managed care initiatives is designed to provide low-cost coverage. The Company currently operates three behavioral health centers with a total of 268 beds in Massachusetts, which has mandated hospital rate-setting. The Company also operates three hospitals containing an aggregate of 688 beds in Florida that are subject to a mandated form of rate-setting if increases in hospital revenues per admission exceed certain target percentages.

In 1991, the Texas legislature authorized the LoneSTAR Health Initiative, a pilot program in two areas of the state, to establish for Medicaid beneficiaries a health care delivery system based on managed care principles. The program is now known as the STAR Program, which is short for State of Texas Access Reform. Since 1995, the Texas Health and Human Services Commission, with the help of other Texas agencies such as the Texas Department of Health, has rolled out STAR Medicaid managed care pilot programs in several geographic areas of the state. Under the STAR program, the Texas Department of Health either contracts with health maintenance organizations in each area to arrange for covered services to Medicaid beneficiaries, or contracts directly with health care providers and oversees the furnishing of care in the role of the case manager. Two carve-out pilot programs are the STAR+PLUS program, which provides long-term care to elderly and disabled Medicaid beneficiaries in the Harris County service area, and the NorthSTAR program, which furnishes behavioral health services to Medicaid beneficiaries in the Dallas County service area. Effective fall 1999, however, the Texas legislature imposed a moratorium on the implementation of additional pilot programs until the 2001 legislative session. A study on the effectiveness of Medicaid managed care was issued in November, 2000, and the extent of further implementation of or changes to Medicaid managed care will likely depend upon the legislature's response to the study. The Company is unable to predict the effect on the Company's business of such current or future pilot programs.

Upon meeting certain conditions, and serving a disproportionately high share of Texas' and South Carolina's low income patients, five of the Company's facilities located in Texas and one facility located in South Carolina became eligible and received additional reimbursement from each state's disproportionate share hospital fund. Included in the Company's financial results was an aggregate of $28.9 million in 2000, $37.0 million in 1999, $36.5 million in 1998, $33.4 million in 1997 and $17.8 million in 1996, received pursuant to the terms of these programs. Failure to renew these programs, which are scheduled to terminate in the third quarter of 2001, or further reduction in reimbursements, could have a material adverse effect on the Company's future results of operation.

The federal self-referral and payment prohibitions (codified in 42 U.S.C. Section 1395nn, Section 1877 of the Social Security Act) generally forbid, absent qualifying for one of the exceptions, a physician from making referrals for the furnishing of any "designated health services," for which payment may be made under the Medicare or Medicaid programs, to any entity with which the physician (or an immediate family member) has a "financial relationship." The legislation was effective January 1, 1992 for clinical laboratory services ("Stark I") and January 1, 1995 for ten other designated health services ("Stark II"). A "financial relationship" under Stark I and II includes any direct or indirect "compensation arrangement" with an entity for payment of any remuneration, and any direct or indirect "ownership or investment interest" in the entity. The legislation contains certain exceptions including, for example, where the referring physician has an ownership interest in a hospital as a whole or where the physician is an employee of an entity to which he or she refers. The Stark I and II self-referral and payment prohibitions include specific reporting requirements providing that each entity providing covered items or services must provide the Secretary with certain information concerning its ownership, investment, and compensation arrangements. In August 1995, HCFA published a final rule regarding physician self-referrals for clinical lab services. On January 4, 2001, HCFA published final rules regarding physician self referrals for the ten other designated health services. Penalties for violating Stark I and Stark II include denial of payment for any services rendered by an entity in violation of the prohibitions, civil money penalties of up to $15,000 for each offense, and exclusion from the Medicare and Medicaid programs.

Starting in 1991, the Inspector General of the Department of Health and Human Services ("HHS") issued regulations which provide for "safe harbors" from the federal anti-kickback statute; if an arrangement or transaction meets each of the standards established for a particular safe harbor, the arrangement will not be subject to challenge by the Inspector General. If an arrangement does not meet the safe harbor criteria, it will be subject to scrutiny under its particular facts and circumstances to determine whether it violates the federal anti-kickback statute 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 criminal sanctions for a conviction under the anti-kickback statute include imprisonment, fines, or both. Civil sanctions include exclusion from federal and state health care programs.

The Company does not anticipate that either the Stark provisions or the safe harbor regulations to the federal anti-kickback statute will have material adverse effects on its operations.

Regulations related to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") are expected to impact the Company and others in the healthcare industry by:

(i) Establishing standardized code sets for financial and clinical electronic data interchange ("EDI") transactions to enable more efficient flow of information. Currently there is no common standard for the transfer of information between the constituents in healthcare and therefore providers have had to conform to each standard utilized by every party with which they interact. The goal of HIPAA is to create one common national standard for EDI and once the HIPAA regulation takes effect, payors will be required to accept the national standard employed by providers. The final regulations establishing electronic data transmission standards that all healthcare providers must use when submitting or receiving certain healthcare transactions electronically were published in August, 2000 and compliance with these regulations is required by October, 2002.

(ii) Mandating the adoption of security standards to preserve the confidentiality of health information that identifies individuals. Currently there is no recognized healthcare standard that includes all the necessary components to protect the data integrity and confidentiality of a patient's electronically maintained or transmitted personal health record. The final regulations containing the privacy standards were released in December, 2000 which require compliance by February, 2003, however, it is possible that the privacy regulations could be amended or their implementation delayed.

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

Non-compliance may result in fines, loss of accreditation and/or threat of civil litigation. The Company has begun preliminary planning for implementation of the necessary changes required pursuant to the terms of HIPAA. However, the Company can not currently estimate the implementation cost of the HIPAA related modifications and consequently can give no assurances that issues related to HIPAA will not have a material adverse effect on the Company's financial condition or results of operations.

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

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

The Social Security Act and regulations thereunder contain numerous provisions which affect the scope of Medicare coverage and the basis for reimbursement of Medicare providers. Among other things, this law provides that in states which have executed an agreement with the Secretary of 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 statutes and regulatory mechanisms are in place in many states in which the Company operates. These provisions govern the distribution of healthcare services, the number of new and replacement hospital beds, administer required state CON laws, contain healthcare costs, and meet the priorities established therein. Significant CON reforms have been proposed in a number of states, including increases in the capital spending thresholds and exemptions of various services from review requirements. 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 healthcare operations generate medical waste that must be disposed of in compliance with federal, state and local environmental laws, rules and regulations. In 1988, Congress passed the Medical Waste Tracking Act. 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. Each of the Company's hospitals is managed on a day-to-day basis by a managing director employed by the Company. In addition, a Board of Governors, including members of the hospital's medical staff, governs the medical, professional and ethical practices at each hospital. The Company's facilities had approximately 25,600 employees at December 31, 2000, of whom 17,920 were employed full-time.

Approximately 1,547 of the Company's employees at six of its hospitals are unionized. At Valley Hospital, unionized employees belong to the Culinary Workers and Bartenders Union, the International Union of Operating Engineers and the Service Employees International Union. Registered nurses at Auburn Regional Medical Center located in Washington state, are represented by the United Staff Nurses Union, the technical employees are represented by the United Food and Commercial Workers, and the service employees are represented by the Service Employees International Union. At The George Washington University Hospital, unionized employees are represented by the Service Employees International Union and the Hospital Police Association. Nurses at Desert Springs Hospital are represented by the Service Employees International Union. The registered nurses, licensed practical nurses, certain technicians and therapists, and housekeeping employees at HRI Hospital in Boston are represented by the Service Employees International Union. Unionized employees at Hospital San Fransisco in Puerto Rico are represented by the Labor Union of Nurses and Health Employees. The Company believes that its relations with its employees are satisfactory.

Competition

In all geographical areas in which the Company operates, there are other hospitals which provide services comparable to those offered by the Company's hospitals, some of which are owned by governmental agencies and supported by tax revenues, and others of which are owned by nonprofit corporations and may be supported to a large extent by endowments and charitable contributions. Such support is not available to the Company's hospitals. Certain of the Company's competitors have greater financial resources, are better equipped and offer a broader range of services than the Company. Outpatient treatment and diagnostic facilities, outpatient surgical centers and freestanding ambulatory surgical centers also impact the healthcare marketplace. In recent years, competition among healthcare providers for patients has intensified 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

Effective January 1, 1998, the Company's subsidiaries are covered under commercial insurance policies which provide for a self-insured retention limit for professional and general liability claims for most of its subsidiaries up to $1 million per occurrence, with an average annual aggregate for covered subsidiaries of $7 million through 2001. These subsidiaries maintain excess coverage up to $100 million with major insurance carriers. The Company's remaining facilities are fully insured under commercial policies with excess coverage up to $100 million maintained with major insurance carriers. At various times in the past, the cost of professional and general liability insurance has risen significantly. Therefore, there can be no assurance that the Company will be able to purchase commercial policies at reasonable premiums upon the December 31, 2001 expiration of current policies. Additionally, there can be no assurance that the increased insurance expense incurred in connection with either commercially or self-insured professional and general liability policies will not have a material adverse effect on the Company's future results of operations.

Relations with Universal Health Realty Income Trust

The Company serves as advisor to Universal Health Realty Income Trust ("UHT"), which leases to the Company the real property of 6 hospital facilities operated by the Company with terms expiring in 2001 through 2006. These leases contain up to six 5-year renewal options. During 2000, the Company exercised its option to purchase Meridell Achievement Center from UHT for cash proceeds of approximately $5.5 million. The Company also sold the real property of a medical office building to a limited liability company that is majority-owned by UHT for cash proceeds of approximately $10.5 million. Tenants in the multi-tenant building include subsidiaries of the Company as well as unrelated parties. In 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 January 31, 2001, the Company owned 8.5% of UHT's outstanding shares and the Company has an option to purchase UHT shares in the future at fair market value to enable it to maintain a 5% interest.

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 (63) | Director, Chairman of the Board, President and Chief Executive Officer |
| Kirk E. Gorman (50) | Senior Vice President and Chief Financial Officer |
| Steve G. Filton (43) | Vice President, Controller and Secretary |
| Debra Osteen (45) | Vice President |
| Richard C. Wright (53) | Vice President |

Mr. Alan B. Miller has been Chairman of the Board, President and Chief Executive Officer of the Company since its inception. Prior thereto, he was President, Chairman of the Board and Chief Executive Officer of American Medicorp, Inc.

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 and currently heads the Development function.

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

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

ITEM 2. Properties

Executive Offices

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

Facilities

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

Acute Care Hospitals

| Name of Facility | Location | Number of Beds | Ownership Interest |
|---|---|---|---|
| Aiken Regional Medical Centers | Aiken, South Carolina | 225 | Owned |
| Auburn Regional Medical Center | Auburn, Washington | 149 | Owned |
| Chalmette Medical Center(5) | Chalmette, Louisiana | 195 | Leased |
| Desert Springs Hospital(2) | Las Vegas, Nevada | 233 | Owned |
| Doctors' Hospital of Laredo | Laredo, Texas | 117 | Owned |
| Doctors' Hospital of Shreveport(3) | Shreveport, Louisiana | 136 | Leased |
| Edinburg Regional Medical Center | Edinburg, Texas | 169 | Owned |
| Fort Duncan Medical Center | Eagle Pass, Texas | 77 | Owned |
| The George Washington University Hospital(4) | Washington, D.C. | 501 | Owned |
| Hospital San Francisco | Rio Piedras, Puerto Rico | 160 | Owned |
| Hospital San Pablo | Bayamon, Puerto Rico | 430 | Owned |
| Hospital San Pablo del Este | Fajardo, Puerto Rico | 180 | Owned |
| Inland Valley Regional Medical Center(1) | Wildomar, California | 80 | Leased |
| Manatee Memorial Hospital | Bradenton, Florida | 512 | Owned |
| McAllen Medical Center(12) | McAllen, Texas | 570 | Leased |
| Northern Nevada Medical Center(4) | Sparks, Nevada | 100 | Owned |
| Northwest Texas Healthcare System | Amarillo, Texas | 357 | Owned |
| River Parishes Hospitals | LaPlace and Chalmette, Louisiana | 106 | Owned |
| St. Mary's Regional Medical Center | Enid, Oklahoma | 277 | Owned |
| Summerlin Hospital Medical Center(2) | Las Vegas, Nevada | 166 | Owned |
| Valley Hospital Medical Center(2) | Las Vegas, Nevada | 417 | Owned |
| Wellington Regional Medical Center(1) | West Palm Beach, Florida | 120 | Leased |

Behavioral Health Centers

| Name of Facility | Location | Number of Beds | Ownership Interest |
|---|---|---|---|
| Anchor Hospital | Atlanta, Georgia | 74 | Owned |
| The Arbour Hospital | Boston, Massachusetts | 118 | Owned |
| The Bridgeway(1) | North Little Rock, Arkansas | 70 | Leased |
| The Carolina Center for Behavioral Health | Greer, South Carolina | 66 | Owned |
| Clarion Psychiatric Center | Clarion, Pennsylvania | 70 | Owned |
| Del Amo Hospital | Torrance, California | 166 | Owned |
| Fairmount Behavioral Health System | Philadelphia, Pennsylvania | 169 | Owned |
| Forest View Hospital | Grand Rapids, Michigan | 62 | Owned |
| Fuller Memorial Hospital | South Attleboro, Massachusetts | 82 | Owned |
| Glen Oaks Hospital | Greenville, Texas | 54 | Owned |
| Hampton Hospital | Westhampton, New Jersey | 100 | Owned |
| Hartgrove Hospital | Chicago, Illinois | 119 | Owned |
| The Horsham Clinic | Ambler, Pennsylvania | 146 | Owned |
| HRI Hospital | Brookline, Massachusetts | 68 | Owned |
| KeyStone Center(6) | Wallingford, Pennsylvania | 100 | Owned |
| La Amistad Residential | | | |

| | | | |
|---|---|---|---|
| Treatment Center.......... | Maitland, Florida | 56 | Owned |
| Lakeside Behavioral Health System.................... | Memphis, Tennessee | 204 | Owned |
| Laurel Heights Hospital.... | Atlanta, Georgia | 102 | Owned |

| Name of Facility | Location | Number of Beds | Ownership Interest |
|---|---|---|---|
| The Meadows Psychiatric Center... | Centre Hall, Pennsylvania | 101 | Owned |
| Meridell Achievement Center...... | Austin, Texas | 114 | Owned |
| The Midwest Center for Youth and Families........................ | Kouts, Illinois | 50 | Owned |
| Parkwood Behavioral Health System.......................... | Olive Branch, Mississippi | 106 | Owned |
| The Pavilion..................... | Champaign, Illinois | 46 | Owned |
| Peachford Behavioral Health System of Atlanta............... | Atlanta, Georgia | 184 | Owned |
| Provo Canyon School.............. | Provo, Utah | 211 | Owned |
| Ridge Behavioral Health System... | Lexington, Kentucky | 110 | Owned |
| River Crest Hospital............. | San Angelo, Texas | 80 | Owned |
| River Oaks Hospital.............. | New Orleans, Louisiana | 126 | Owned |
| Rockford Center.................. | Newark, Delaware | 74 | Owned |
| Roxbury(6)....................... | Shippensburg, Pennsylvania | 75 | Owned |
| Talbott Recovery Campus.......... | Atlanta, Georgia | -- | Owned |
| Timberlawn Mental Health System.. | Dallas, Texas | 124 | Owned |
| Turning Point Care Center(6)..... | Moultrie, Georgia | 59 | Owned |
| Two Rivers Psychiatric Hospital.. | Kansas City, Missouri | 80 | Owned |

Ambulatory Surgery Centers

| Name of Facility(7) | Location |
|---|---|
| Arkansas Surgery Center of Fayetteville.......... | Fayetteville, Arkansas |
| Brownsville Surgicare........................... | Brownsville, Texas |
| Goldring Surgical and Diagnostic Center.......... | Las Vegas, Nevada |
| Northwest Texas Surgery Center.................. | Amarillo, Texas |
| Outpatient Surgical Center of Ponca City......... | Ponca City, Oklahoma |
| Plaza Surgery Center........................... | Las Vegas, Nevada |
| St. George Surgical Center...................... | St. George, Utah |
| Hope Square Surgery Center...................... | Rancho Mirage, California |
| Surgery Center of Littleton..................... | Littleton, Colorado |
| Surgery Center of Midwest City.................. | Midwest City, Oklahoma |
| Surgery Center of Springfield................... | Springfield, Missouri |
| Surgical Center of New Albany................... | New Albany, Indiana |

Radiation Oncology Centers

| Name of Facility | Location |
|---|---|
| Auburn Regional Center for Cancer Care........... | Auburn, Washington |
| Bluegrass Cancer Center......................... | Frankfort, Kentucky |
| Bowling Green Radiation Therapy(9)............... | Bowling Green, Kentucky |
| Cancer Institute of Nevada(10).................. | Las Vegas, Nevada |
| Carolina Cancer Center.......................... | Aiken, South Carolina |
| Danville Radiation Therapy Center................ | Danville, Kentucky |
| Glasgow Radiation Therapy(9).................... | Glasgow, Kentucky |
| Louisville Radiation Oncology Center(8).......... | Louisville, Kentucky |
| Madison Radiation Therapy(10)................... | Madison, Indiana |
| Southern Indiana Radiation Therapy.............. | Jeffersonville, Indiana |
| Radiation Therapy Medical Associates of Bakersfield(11)............................... | Bakersfield, California |

Specialized Women's Health Centers

| Name of Facility | Location |
|---|---|
| Renaissance Women's Center of Edmond(10) | Edmond, Oklahoma |

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

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

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

The aggregate lease payments on facilities leased by the Company were $22.5 million in 2000, $24.0 million in 1999 and $22.2 million in 1998.

## 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.

During the fourth quarter of 1999, the Company made a decision to close and divest one of its specialized women's centers, and recorded a $5.3 million charge to reduce carrying value of the facility to its estimated realizable value of approximately $9 million, based on an independent appraisal. A jury verdict unfavorable to the Company was rendered during the fourth quarter of 2000 with respect to litigation regarding closing of this facility. This unprofitable facility was closed in February, 2001 and the Company has appealed the jury verdict. Accordingly, during the fourth quarter of 2000, the Company recognized a nonrecurring charge of $7.7 million for the amount of the jury verdict and a reserve for remaining legal costs.

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, 2000 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 | | | | |
|---|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 1997 | 1996 |
| **Summary of Operations (in thousands)** | | | | | |
| Net revenues | $2,242,444 | $2,042,380 | $1,874,487 | $1,442,677 | $1,174,158 |
| Net income | $ 93,362 | $ 77,775 | $ 79,558 | $ 67,276 | $ 50,671 |
| Net margin | 4.2% | 3.8% | 4.2% | 4.7% | 4.3% |
| Return on average equity | 13.7% | 12.1% | 13.1% | 13.5% | 13.0% |
| **Financial Data (in thousands)** | | | | | |
| Cash provided by operating activities | $ 182,454 | $ 175,557 | $ 151,684 | $ 174,170 | $ 145,991 |
| Capital expenditures (1) | $ 115,751 | $ 68,695 | $ 96,808 | $ 132,258 | $ 107,630 |
| Total assets | $1,742,377 | $1,497,973 | $1,448,095 | $1,085,349 | $ 965,795 |
| Long-term borrowings | $ 548,064 | $ 419,203 | $ 418,188 | $ 272,466 | $ 275,634 |
| Common stockholders' equity | $ 716,574 | $ 641,611 | $ 627,007 | $ 526,607 | $ 452,980 |
| Percentage of total debt to total capitalization | 43% | 40% | 40% | 35% | 38% |
| **Operating Data--Acute Care Hospitals** | | | | | |
| Average licensed beds | 4,980 | 4,806 | 4,696 | 3,389 | 3,018 |
| Average available beds | 4,220 | 4,099 | 3,985 | 2,951 | 2,641 |
| Hospital admissions | 214,771 | 204,538 | 187,833 | 128,020 | 111,244 |
| Average length of patient stay | 4.7 | 4.7 | 4.7 | 4.8 | 4.9 |
| Patient days | 1,017,646 | 963,842 | 884,966 | 616,965 | 546,237 |
| Occupancy rate for licensed beds | 56% | 55% | 52% | 50% | 49% |
| Occupancy rate for available beds | 66% | 64% | 61% | 57% | 57% |
| **Operating Data--Behavioral Health Facilities** | | | | | |
| Average licensed beds | 2,612 | 1,976 | 1,782 | 1,777 | 1,565 |
| Average available beds | 2,552 | 1,961 | 1,767 | 1,762 | 1,540 |
| Hospital admissions | 49,971 | 37,810 | 32,400 | 28,350 | 22,295 |
| Average length of patient stay | 12.2 | 11.8 | 11.3 | 11.9 | 12.4 |
| Patient days | 608,423 | 444,632 | 365,935 | 336,850 | 275,667 |
| Occupancy rate for licensed beds | 64% | 62% | 56% | 52% | 48% |
| Occupancy rate for available beds | 65% | 62% | 57% | 52% | 49% |
| **Per Share Data** | | | | | |
| Net income--basic (2) | $ 3.10 | $ 2.48 | $ 2.45 | $ 2.08 | $ 1.69 |
| Net income--diluted (2) | $ 3.01 | $ 2.43 | $ 2.39 | $ 2.03 | $ 1.65 |
| **Other Information (in thousands)** | | | | | |
| Weighted average number of shares outstanding--basic (2) | 30,110 | 31,417 | 32,511 | 32,321 | 30,054 |
| Weighted average number of shares and share equivalents outstanding--diluted (2) | 32,410 | 31,990 | 33,293 | 33,098 | 30,798 |

Common Stock Performance

Market price of common stock

High--Low, by quarter (3)

| | | | | | |
|---|---|---|---|---|---|
| 1st | 49 -36 1/2 | 53 - 37 7/8 | 58 1/8 -47 1/16 | 34 5/8 -27 7/8 | 26 7/8-21 11/16 |
| 2nd | 70 1/16-49 | 54 7/8 -39 1/2 | 59 5/8 - 53 | 40 1/2 -31 5/8 | 30 1/8-24 3/8 |
| 3rd | 85 5/8 -63 13/16 | 47 3/8 -23 11/16 | 58 1/2 -38 3/4 | 47 1/16-39 1/16 | 27 1/4-22 3/4 |
| 4th | 111 3/4-77 1/4 | 36 1/2 - 24 | 54 5/16-40 7/16 | 50 3/8 -40 11/16 | 29 1/4-24 1/2 |

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

(2) In April 1996, the Company declared a two-for-one stock split in the form of a 100% stock dividend which was paid in May 1996. All classes of common stock participated on a pro rata basis. The weighted average number of common shares and equivalents and earnings per common and common equivalent share for all years presented have been adjusted to reflect the two-for-one stock split.

(3) These prices are the high and low closing sales prices of the Company's Class B Common Stock as reported by the New Yok Stock Exchange (all periods have been adjusted to reflect the two-for-one stock split in the form of a 100% stock dividend paid in May 1996). Class A, C and D common stock are convertible on a share-for-share basis into Class B Common Stock.

Number of shareholders of record as of January 31, 2001, were as follows:

| | |
|---|---|
| Class A Common............ | 6 |
| Class B Common............ | 528 |
| Class C Common............ | 5 |
| Class D Common............ | 213 |

## ITEM 7. Management's Discussion And Analysis Of Operations And Financial Condition

### Forward-Looking Statements

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

### Results of Operations

Net revenues increased 10% to $2.2 billion in 2000 as compared to 1999 and 9% to $2.0 billion in 1999 as compared to 1998. The $200 million increase in net revenues during 2000 as compared to 1999 was due primarily to: (i) a $104 million or 5% increase in net revenues generated at acute care and behavioral health care facilities owned during both years, and; (ii) $88 million of net revenues generated at two acute care and twelve behavioral health care facilities acquired during the third quarter of 2000. The $168 million increase in net revenues during 1999 as compared to 1998 was due primarily to: (i) a $75 million or 4% increase in net revenues generated at acute and behavioral health care facilities owned in both 1999 and 1998 (excluding a favorable $3 million prior year net revenue adjustment recorded in the second quarter of 1999 resulting from an adjustment to contractual allowances recorded in a prior year), and; (ii) $43 million of net revenues generated at three behavioral health facilities and an acute care facility which were acquired during the second quarter of 1999 (net of revenues generated at facility exchanged for the acute care facility).

Earnings before interest, income taxes, depreciation, amortization, lease and rental expense, minority interests in earnings of consolidated entities and nonrecurring charges of $7.7 million recorded in 2000 and $5.3 million recorded in 1999 ("EBITDAR") (see other Operating Results) increased 13% to $359 million in 2000 from $319 million in 1999. In 1999, EBITDAR increased 2% to $319 million from $311 million in 1998. Overall operating margins (EBITDAR) were 16.0% in 2000, 15.6% in 1999 and 16.6% in 1998. The factors causing the fluctuations in the Company's overall operating margins during the last three years are discussed below.

Acute Care Services

Net revenues from the Company's acute care hospitals, ambulatory treatment centers and specialized women's health centers accounted for 84%, 86% and 87% of consolidated net revenues in 2000, 1999 and 1998, respectively. Net revenues at the Company's acute care facilities owned in both 2000 and 1999 increased 5% in 2000 as compared to 1999 as admissions and patient days each increased 3% in 2000 as compared to 1999. Also contributing to the increase in net revenues at these facilities was an increase in prices charged to private payors including health maintenance organizations and preferred provider organizations. Net revenues at the Company's acute care facilities owned in both 1999 and 1998 increased 4% in 1999 as compared to 1998 due primarily to a 5% increase in admissions and a 6% increase in patient days. The average length of stay at these facilities remained unchanged at 4.7 days during 2000, 1999 and 1998.

The Company's facilities have experienced an increase in inpatient acuity and intensity of services as less intensive services shift from an inpatient basis to an outpatient basis due to technological and pharmaceutical improvements and continued pressures by payors, including Medicare, Medicaid and managed care companies to reduce admissions and lengths of stay. To accommodate the increased utilization of outpatient services, the Company has expanded or redesigned several of its outpatient facilities and services. Gross outpatient revenues at the Company's acute care facilities owned during the last three years increased 13% in 2000 as compared to 1999 and 11% in 1999 as compared to 1998, and comprised 26% of the Company's acute care gross patient revenue in each of the last three years. Despite the increase in patient volume at the Company's facilities, inpatient utilization continues to be negatively affected by payor-required, pre-admission authorization and by payor pressure to maximize outpatient and alternative healthcare delivery services for less acutely ill patients. Additionally, the hospital industry in the United States, including the Company's acute care facilities, continue to have significant unused capacity which has created substantial competition for patients. The Company expects the increased competition, admission constraints and payor pressures to continue.

The increase in net revenue was negatively affected by lower payments from the government under the Medicare program as a result of the Balanced Budget Act of 1997 ("BBA-97") and discounts to insurance and managed care companies (see General Trends for additional disclosure). The Company anticipates that the percentage of its revenue from managed care business will continue to increase in the future. The Company generally receives lower payments per patient from managed care payors than it does from traditional indemnity insurers.

At the Company's acute care facilities, operating expenses (salaries, wages and benefits, other operating expenses, supplies and provision for doubtful accounts) as a percentage of net revenues were 81.4% in 2000, 81.6% in 1999 and 79.9% in 1998. Operating margins (EBITDAR) at these facilities were 18.6% in 2000, 18.4% in 1999 and 20.1% in 1998. The operating margins at the Company's acute care facilities improved to 18.6% in 2000 from 18.4% in 1999 despite an increase in the provision for doubtful accounts. As a result of increased efforts to control costs, salaries, wages and benefits, other operating expenses and supplies as a percentage of net revenues all decreased in 2000 as compared to 1999. However, these decreases were almost entirely offset by an increase in the provision for doubtful accounts caused primarily by: (i) an increase in self-pay patients which generally result in a larger portion of uncollectable accounts; (ii) collection delays and difficulties with managed care payors, and; (iii) an increase in gross patient charges instituted during the year which increases the provision for doubtful accounts when accounts become uncollectable. During 1999, the Company's acute care division experienced earnings pressure due to government reimbursement reductions, continued increases in the provision for doubtful accounts and weakened operating performance at facilities in Las Vegas, Nevada and Amarillo, Texas. On a combined basis, the Company's three acute care facilities in Las Vegas and the acute care facility in Amarillo contributed 32% of the Company's acute care net revenue in both 1999 and 1998 and had operating margins of 15.7% in 1999 and 20.9% in 1998. Excluding the Las Vegas and Amarillo facilities, on a combined basis, the Company's other acute care facilities had operating margins of 19.6% in 1999 and 19.7% in 1998. The decrease in the combined operating margins of the Las Vegas facilities in 1999 as compared to 1998 was due primarily to a capitation agreement entered into in 1999 with a managed care provider, and collection issues resulting from continued delays in payments from managed care payors. The capitation contract for the

Company's three Las Vegas facilities was replaced by a standard per diem contract commencing in January, 2000. The operating margins at the Company's facility in Amarillo have been negatively impacted by reductions in Medicaid disproportionate share payments stemming from BBA-97 and program redesigns by Texas, reduced levels of business in a few high margin services and higher than anticipated indigent care costs.

At the Company's acute care facilities owned in both 2000 and 1999, operating expenses (salaries, wages and benefits, other operating expenses, supplies and provision for doubtful accounts) as a percentage of net revenues were 81.6% in 2000 and 81.8% in 1999. Operating margins at the Company's acute care facilities
owned in both 2000 and 1999 were 18.4% in 2000 as compared to 18.2% in 1999. Salaries, wages and benefits, other operating expenses and supplies as a percentage of net revenues all decreased in 2000 as compared to 1999 at the Company's acute care facilities owned in both years. However, these decreases in expenses as a percentage of net revenues were almost entirely offset by an increase in the provision for doubtful accounts, as mentioned above.

Operating expenses (salaries, wages and benefits, other operating expenses, supplies and provision for doubtful accounts) at the Company's facilities owned in both 1999 and 1998 were 81.4% of net revenues in 1999 and 79.9% in 1998. Operating margins at the Company's acute care facilities owned in both 1999 and 1998 were 18.6% in 1999 as compared to 20.1% in 1998. The decrease in the same facility operating margins in 1999 as compared to 1998 was due primarily to the decreased operating performance at the Company's acute care facilities in Las Vegas, Nevada and Amarillo, Texas, as discussed above. Excluding the facilities in Las Vegas and Amarillo, the operating margins at the Company's other acute care facilities owned in both years increased to 20.1% in 1999 as compared to 19.7% in 1998.

Behavioral Health Services

Net revenues from the Company's behavioral health care facilities accounted for 16%, 13% and 12% of consolidated net revenues in 2000, 1999 and 1998, respectively. The increase in 2000 as compared to 1999 and 1998 was due primarily to the purchase of twelve behavioral health facilities acquired during the third quarter of 2000. Net revenues at the Company's behavioral health care facilities owned in both 2000 and 1999 increased 5% in 2000 as compared to 1999. Admissions and patient days at these facilities increased 4% and 3%, respectively, in 2000 as compared to 1999 and the average length of stay decreased to 11.7 days in 2000 as compared to 11.8 days in 1999. Net revenues at the Company's behavioral health care facilities owned in both 1999 and 1998 increased 3% in 1999 as compared to 1998. Admissions and patient days at these facilities increased 5% and 7%, respectively, in 1999 as compared to 1998 and the average length of stay increased to 11.5 days in 1999 as compared to 11.3 days in 1998.

There has been continued practice changes in the delivery of behavioral health care services and continued cost containment pressures from payors, including managed care companies which encourage alternatives to inpatient treatment. Additionally, providers participating in managed care programs agree to provide services to patients for a discount from established rates which generally results in pricing concessions by the providers and lower margins. However, during the last two years, there has been significant downsizing in the behavioral health care industry which has created an opportunity for the Company to increase its managed care rates. Generally, the Company expects the admission constraints and payor pressure to continue, however, the Company believes these pressures may not be as severe in future periods.

Operating expenses (salaries, wages and benefits, other operating expenses, supplies and provision for doubtful accounts) as a percentage of net revenues at the Company's behavioral health care facilities were 81.8% in 2000, 83.4% in 1999 and 83.5% in 1998. The Company's behavioral health care division generated operating margins (EBITDAR) of 18.2% in 2000, 16.6% in 1999 and 16.5% in 1998. On a same facility basis, operating expenses (salaries, wages and benefits, other operating expenses, supplies and provision for doubtful accounts) as a percentage of net revenues at the Company's behavioral health care facilities owned in both 2000 and 1999 were 81.4% in 2000 and 83.4% in 1999. Operating margins at the Company's behavioral health care facilities owned in both 2000 and 1999 were 18.6% in 2000 and 16.6% in 1999. Operating expenses at the Company's behavioral health care facilities owned in both 1999 and 1998 were 83.7% in 1999 and 83.5% in 1998. Operating margins at the Company's behavioral health care facilities owned in both 1999 and 1998 were 16.3% in 1999 and 16.5% in 1998. In an effort to maintain and potentially further improve the operating margins at its behavioral health care facilities, management of the Company continues to implement cost controls and price increases and has also increased its focus on receivables management.

Other Operating Results

During the fourth quarter of 1999, the Company decided to close and divest one of its specialized women's health centers and as a result, the Company recorded a $5.3 million nonrecurring charge to reduce the carrying value of the facility to its estimated realizable value of approximately $9 million, based on an independent appraisal. A jury verdict unfavorable to the Company was rendered during the fourth quarter of 2000 with respect to litigation regarding the closing of this facility. This unprofitable facility was closed in February, 2001 and the Company has appealed the jury verdict. Accordingly, during the fourth quarter of 2000, the Company recognized a nonrecurring charge of $7.7 million to reflect the amount of the jury verdict and a reserve for remaining legal costs.

The effective tax rate was 36.1% in 2000, 36.7% in 1999 and 35.3% in 1998. The increase in the effective tax rate during 1999 as compared to 1998 was due to a reduction in the tax benefits related to the financing of employee benefit programs.

General Trends

A significant portion of the Company's revenue is derived from fixed payment services, including Medicare and Medicaid which accounted for 44%, 46% and 46% of the Company's net patient revenues during 2000, 1999 and 1998, respectively. The Medicare program reimburses the Company's hospitals primarily based on established rates by a diagnosis related group for acute care hospitals and by cost based formula for behavioral health facilities. Historically, rates paid under Medicare's prospective payment system ("PPS") for inpatient services have increased, however, these increases have been less than cost increases. Pursuant to the terms of BBA-97, there were no increases in the rates paid to hospitals for inpatient care through September 30, 1998 and reimbursement for bad debt expense and capital costs as well as other items were reduced. Inpatient operating payment rates increased 0.5% for the period of October 1, 1998 through September 30, 1999, however, the modest rate increase was less than inflation and was more than offset by the negative impact of converting reimbursement on skilled nursing facility patients from a cost based reimbursement to a prospective payment system and from lower DRG payments on certain patient transfers mandated by BBA-97. Inpatient operating payment rates were increased 1.1% for the period of October 1, 1999 through September 30, 2000, however, the modest increase was less than inflation and was more than offset by the negative impact of increasing the qualification threshold for additional payments for treating costly inpatient cases (outliers). Payments for Medicare outpatient services historically have been paid based on costs, subject to certain adjustments and limits. BBA-97 requires that payment for those services be converted to PPS, which was implemented on August 1, 2000. The implementation of outpatient PPS has not had a material impact on the Company's results of operations.

During the fourth quarter of 2000, Congress passed the Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 ("BIPA") which, among other things, increased Medicare and Medicaid payments to health care providers by $35 billion over 5 years with approximately $12 billion of this amount targeted for hospitals and $11 billion for managed care payors. These increased reimbursements to hospitals pursuant to the terms of BIPA will commence in April, 2001 and for the period of April 1, 2001 through September 30, 2001, the additional reimbursements will be remitted to hospitals at twice the scheduled amounts. BBA-97 established the annual update for Medicare at market basket minus 1.1% in both fiscal years 2001 (October 1, 2000 through September 30, 2001) and 2002 and BIPA revised the update at the full market basket in fiscal year 2001 and market basket minus .55% in fiscal years 2002 and 2003. Additionally, BBA-97 reduced reimbursement to hospitals for Medicare bad debts to 55% and BIPA increased the reimbursement to 70%, with an effective date for the Company of January 1, 2001. The Company estimates that the implementation of BIPA will result in an increase in net revenues and pretax income of approximately $5 million to $10 million during 2001.

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

In Texas, a law has been passed which mandates that the state senate apply for a waiver from current Medicaid regulations to allow the state to require that certain Medicaid participants be serviced through managed care providers. The Company is unable to predict whether Texas will be granted such a waiver or the effect on the Company's business of such a waiver. Upon meeting certain conditions, and serving a disproportionately high share of Texas' and South Carolina's low income patients, five of the Company's facilities located in Texas and one facility located in South Carolina became eligible and received additional reimbursement from each state's disproportionate share hospital fund. Beginning in the third quarter of 1999, as a result of reductions stemming from BBA-97 and program redesigns by the two states, the Company's Medicaid disproportionate share reimbursements were reduced by approximately $11 million annually, on a prospective basis. Beginning in the third quarter of 2000, the Medicaid disproportionate share reimbursements have been reduced by an additional $5.6 million annually, on a prospective basis. The Company has appealed the reductions related to the Texas program, however, the amounts included in the results of operations during the third and fourth quarters of 2000 were recorded as if the Company is unsuccessful in its appeal. Included in the Company's financial results was an aggregate of $28.9 million in 2000 (including reimbursements received at two acute care hospitals located in Texas acquired during the second quarter of 1999 and the third quarter of 2000), $37.0 million in 1999 and $36.5 million in 1998 received pursuant to the terms of these programs. Failure to renew these programs, which are scheduled to terminate in the third quarter of 2001, or further reductions in reimbursements, could have a material adverse effect on the Company's future results of operations.

Pressures to control health care costs and a shift away from traditional Medicare to Medicare managed care plans have resulted in an increase in the number of patients whose health care coverage is provided under managed care plans. Approximately 35% in 2000, 32% in 1999 and 27% in 1998, of the Company's net patient revenues were generated from managed care companies, which includes health maintenance organizations and preferred provider organizations. In general, the Company expects the percentage of its business from managed care programs to continue to grow. The consequent growth in managed care networks and the resulting impact of these networks on the operating results of the Company's facilities vary among the markets in which the Company operates. Typically, the Company receives lower payments per patient from managed care payors than it does from traditional indemnity insurers, however during 2000, the Company secured price increases from many of its commercial payors including managed care companies.

Effective January 1, 1998, the Company's subsidiaries are covered under commercial insurance policies which provide for a self-insured retention limit for professional and general liability claims for most of its subsidiaries up to $1 million per occurrence, with an average annual aggregate for covered subsidiaries of $7 million through 2001. These subsidiaries maintain excess coverage up to $100 million with major insurance carriers. The Company's remaining facilities are fully insured under commercial policies with excess coverage up to $100 million maintained with major insurance carriers. At various times in the past, the cost of professional and general liability insurance has risen significantly. Therefore, there can be no assurance that the Company will be able to purchase commercial policies at reasonable premiums upon the December 31, 2001 expiration of current policies. Additionally, there can be no assurance that the increased insurance expense incurred in connection with either commercially or self-insured professional and general liability policies will not have a material adverse effect on the Company's future results of operations.

Health Insurance Portability and Accountability Act of 1996

Regulations related to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") are expected to impact the Company and others in the healthcare industry by:

(i) Establishing standardized code sets for financial and clinical electronic data interchange ("EDI") transactions to enable more efficient flow of information. Currently there is no common standard for the transfer of information between the constituents in healthcare and therefore providers have had to conform to each standard utilized by every party with which they interact. The goal of HIPAA is to create one common national standard for EDI and once the HIPAA regulation takes effect, payors will be required to accept the national standard employed by providers. The final regulations establishing electronic data transmission standards that all healthcare providers must use when submitting or receiving certain healthcare transactions electronically were published in August, 2000 and compliance with these regulations is required by October, 2002.

(ii) Mandating the adoption of security standards to preserve the confidentiality of health information that identifies individuals. Currently there is no recognized healthcare standard that includes all the necessary components to protect the data integrity and confidentiality of a patient's electronically maintained or transmitted personal health record. The final regulations containing the privacy standards were released in December, 2000 which require compliance by February, 2003, however, it is possible that the privacy regulations could be amended or their implementation delayed.

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

Non-compliance may result in fines, loss of accreditation and/or threat of civil litigation. The Company has begun preliminary planning for implementation of the necessary changes required pursuant to the terms of HIPAA. However, the Company can not currently estimate the implementation cost of the HIPAA related modifications and consequently can give no assurances that issues related to HIPAA will not have a material adverse effect on the Company's financial condition or results of operations.

Market Risks Associated with Financial Instruments

The Company's interest expense is sensitive to changes in the general level of domestic interest rates. To mitigate the impact of fluctuations in domestic interest rates, a portion of the Company's debt is fixed rate accomplished by either borrowing on a long-term basis at fixed rates or by entering into interest rate swap transactions. The interest rate swap agreements are contracts that require the Company to pay fixed and receive floating interest rates over the life of the agreements. The floating-rates are based on LIBOR and the fixed-rate is determined at the time the swap agreement was consummated. The Company also has two additional five year interest rate swaps aimed at hedging the Company's $135 million Senior Notes. Both swaps are for a notional amount of $135 million. The Company pays a fixed rate of 6.76% and receives three month LIBOR on one of the swaps and pays 3 month LIBOR plus a spread and receives a fixed rate of 8.75% plus an additional fixed rate of .465% on the other. The counterparty has the right to cancel the swap in which the Company pays 3 month LIBOR at any time during the swap term with thirty days notice except for the fixed payment of .465%, which is non-cancelable. The interest rate swap agreements do not constitute positions independent of the underlying exposures. The Company does not hold or issue derivative instruments for trading purposes and is not a party to any instruments with leverage features. The Company is exposed to credit losses in the event of nonperformance by the counterparties to its financial instruments. The counterparties are creditworthy financial institutions, rated AA or better by Moody's Investor Services and the Company anticipates that the counterparties will be able to fully satisfy their obligations under the contracts. For the years ended December 31, 2000, 1999 and 1998, the Company received weighted average rates of 7.2%, 5.5% and 5.7%, respectively, and paid a weighted average rate on its interest rate swap agreements of 7.5% in 2000 and 5.8% in both 1999 and 1998.

The table below presents information about the Company's derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including long-term debt and interest rate swaps as of December 31, 2000. For debt obligations, the table presents principal cash flows and related weighted-average interest rates by contractual maturity dates. For interest rate swap agreements, the table presents notional amounts by maturity date and weighted average interest rates based on rates in effect at December 31, 2000. The fair values of long-term debt and interest rate swaps were determined based on market prices quoted at December 31, 2000, for the same or similar debt issues.

| | Maturity Date, Fiscal Year Ending December 31 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | 2005 | There-after | Total |
| | (Dollars in thousands) | | | | | | |
| Long-term debt: | | | | | | | |
| Fixed rate--Fair value................ | $689 | $ 1,011 | $587 | $349 | $ 136,042 | $398,446(a) | $ 537,124 |
| Fixed rate--Carrying value................ | $689 | $ 1,011 | $587 | $349 | $ 134,696 | $255,265 | $ 392,597 |
| Average interest rates.. | 8.2% | 7.7% | 8.0% | 7.9% | 8.7% | 5.0% | |
| Variable rate long-term debt................... | | $137,955 | | | | $ 18,200 | $ 156,155 |
| Interest rate swaps: | | | | | | | |
| Pay fixed/receive variable notional amounts............. | | | | | $ 135,000 | | $ 135,000 |
| Average pay rate...... | | | | | 6.76% | | |
| Average receive rate.. | | | | | 3 month LIBOR | | |
| Pay variable/receive fixed notional amounts............. | | | | | $ (135,000)(b) | | $(135,000) |
| Average pay rate...... | | | | | 3 Month LIBOR & spread | | |
| Average receive rate.. | | | | | 8.75%+.465% | | |
| Pay fixed/receive variable notional amounts............. | | | | | $ 75,000 | | $ 75,000 |
| Average pay rate...... | | | | | 6.70% | | |
| Average receive rate.. | | | | | 3 Month LIBOR | | |

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(a) The fair value of the Company's 5% discounted Convertible Debentures ("Debentures") at December 31, 2000 is $398.4 million, however, the Company has the right to redeem the Debentures any time on or after June 23, 2006 at a price equal to the issue price of the Debentures plus accrued original issue discount and accrued cash interest to the date of redemption. On June 23, 2006 the amount necessary to redeem all Debentures would be $319.0 million. If the Debentures could be redeemed at the same basis at December 31, 2000 the redemption amount would be $255 million. The holders of the Debentures may convert the Debentures to the Company's Class B stock at any time. If all Debentures were converted, the result would be the issuance of 3.3 million shares of the Company's Class B stock.

(b) Counter party has the right to cancel at any time within 30 days notice, excluding .465% fixed rate payment.

## Effects of Inflation and Seasonality

Although inflation has not had a material impact on the Company's results of operations over the last three years, the healthcare industry is very labor intensive and salaries and benefits are subject to inflationary pressures as are rising supply costs which tend to escalate as vendors pass on the rising costs through price increases. The Company's acute care and behavioral health care facilities are experiencing the effects of the tight labor market, including a shortage of nurses, which may cause an increase in the Company's future salaries, wages and benefits expense in excess of the inflation rate. Although the Company cannot predict its ability to continue to cover future cost increases, management believes that through adherence to cost containment policies, labor management and reasonable price increases, the effects of inflation on future operating margins should be manageable. However, the Company's ability to pass on these increased costs associated with providing healthcare to Medicare and Medicaid patients is limited due to various federal, state and local laws which have been enacted that, in certain cases, limit the Company's ability to increase prices. In addition, as a result of increasing regulatory and competitive pressures and a continuing industry wide shift of patients into managed care plans, the Company's ability to maintain margins through price increases to non-Medicare patients is limited.

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

## Liquidity and Capital Resources

Net cash provided by operating activities was $182 million in 2000, $176 million in 1999 and $152 million in 1998. Included in the $6 million increase in 2000 as compared to 1999 was: (i) a favorable $35 million change due to an increase in net income plus the addback of depreciation and amortization expense, minority interest in earnings of consolidated entities, accretion of discount on Convertible Debentures and other non-cash charges; (ii) a favorable $25 million change due to the timing of net income tax payments; (iii) an unfavorable $24 million change due to an increase in the combined working capital balances as of December 31, 2000 at twelve behavioral health care facilities and one acute care facility purchased during the third quarter of 2000 (working capital for these facilities was not included in the purchase transactions), and; (iv) $30 million of other unfavorable working capital changes. The unfavorable change in other working capital accounts was due primarily to a decrease in the pre-funding of employee benefit programs effective December 31, 1999. The $25 million reduction in income taxes paid was due to an anticipation of higher tax benefits from employee stock option exercises and the decreases in accrued taxes attributable to the prior year's overpayment.

The $24 million increase in 1999 as compared to 1998 was primarily attributable to: (i) a $41 million favorable change in other working capital accounts caused primarily by favorable timing of accounts payable disbursements in 1999 as compared to 1998 and a $17 million decrease in the pre-funding of employee benefit programs, and; (ii) an $18 million unfavorable change in accounts receivable, partially resulting from delays in payments by managed care payors.

During 2000, the Company spent $141 million to acquire the assets and operations of twelve behavioral health care facilities and two acute care hospitals and $12 million to acquire a minority ownership interest in an e-commerce marketplace for the purchase and sale of health care supplies, equipment and services to the healthcare industry. During 1999, the Company acquired three behavioral health facilities for a combined purchase price of $27 million in cash plus contingent consideration of up to $3 million. Also during 1999, the Company acquired the assets and operations of Doctor's Hospital of Laredo in exchange for the assets and operations of its Victoria Regional Medical Center. In connection with this transaction, the Company also spent approximately $5 million to purchase additional land in Laredo, Texas on which it is constructing a replacement hospital scheduled to be completed and opened in the third quarter of 2001. During 1998, the Company acquired three acute care hospitals located in Puerto Rico for a combined purchase price of $187 million. Also during 1998, the Company contributed substantially all of the assets, liabilities and operations of its Valley Hospital

Medical Center and Summerlin Hospital Medical Center, in exchange for a 72.5% interest in limited liability companies ("LLCs"). Quorum Health Group, Inc. ("Quorum") holds the remaining 27.5% interest in the LLCs. Quorum obtained its interest by contributing substantially all of the assets, liabilities and operations of Desert Springs Hospital, and $11 million of net cash. The assets and liabilities contributed by the Company were recorded by the LLCs at carryover value. The LLCs applied purchase accounting to the assets and liabilities provided by Quorum and recorded them at fair market value. As a result of this partial sale transaction, the Company recorded a pre-tax gain of $55.1 million ($34.7 million after-tax) that was recorded as a capital contribution to the Company. This merger did not have a material impact on the 1998 results of operations. Also during 1998, the Company spent $2 million to purchase the property of a radiation therapy center located in California.

Capital expenditures were $114 million in 2000, $68 million in 1999 and $97 million in 1998. Included in the 2000 capital expenditures, was approximately $39 million related to construction of replacement acute care hospitals or major construction projects at existing acute care facilities. Capital expenditures for capital equipment, renovations and new projects at existing hospitals and completion of major construction projects in progress at December 31, 2000 may total approximately $236 million in 2001. The Company believes that its capital expenditure program is adequate to expand, improve and equip its existing hospitals.

During 2000, the Company received net cash proceeds of $16 million resulting from the divestiture of the real property of a behavioral health care facility located in Florida, a medical office building located in Nevada, and its ownership interests in a specialized women's health center and two physician practices located in Oklahoma. During 1999, the Company received cash proceeds of $16 million generated primarily from the sale of the real property of two medical office buildings. Included in the $16 million of cash proceeds received from merger, sale or disposition of assets in 1998 was $11 million of cash received from Quorum related to the partial sale transaction mentioned above. The net gain/loss resulting from these transactions did not have a material impact on the 2000, 1999 or 1998 results of operations

During 1998 and 1999, the Company's Board of Directors approved stock purchase programs authorizing the Company to purchase up to six million shares of its outstanding Class B Common Stock on the open market at prevailing market prices or in negotiated transactions off the market. Pursuant to the terms of these programs, the Company purchased 580,500 shares at an average purchase price of $42.90 per share ($24.9 million in the aggregate) during 1998, 2,028,379 shares at an average purchase price of $35.10 per share ($71.2 million in the aggregate) during 1999 and 1,204,000 shares at an average purchase price of $29.89 per share ($36.0 million in the aggregate) during 2000. Since inception of the stock purchase program in 1998 through December 31, 2000, the Company purchased a total of 3,812,879 shares at an average purchase price of $34.65 per share ($132.1 million in the aggregate).

During the second quarter of 2000, the Company issued discounted convertible debentures that are due in 2020 ("Debentures"). The Debentures, which had an aggregate issue price of $250 million or $587 million aggregate principal amount at maturity, were issued at a price of $425.90 per $1,000 principal amount of Debenture. The Debentures will pay cash interest on the principal amount at the rate of 0.426% per annum, resulting in a yield to maturity of 5.0%. The Debentures will be convertible at the option of the holders thereof into 5.6024 shares of the Company's Common Stock per $1,000 face amount of Debenture (equivalent at issuance to $76.02 per share of common stock). The securities were not registered or required to be registered under the Securities Act of 1933 (the "Securities Act") and were sold in the United States in a private placement under Rule 144A under the Securities Act, and were not offered or sold in the United States absent registration or an applicable exemption from registration requirements. Pursuant to an agreement with the holders of the Debentures, the Debentures and the underlying Class B Common Stock were registered for resale under the Securities Act. The Company used the net proceeds generated from the Debenture issuance to repay debt which was reborrowed to finance previously disclosed acquisitions, (see Note 2 to the Consolidated Financial Statements) and for other general corporate purposes.

As of December 31, 2000, the Company had $355 million of unused borrowing capacity under the terms of its $400 million revolving credit agreement which matures in July 2002 and provides for interest at the

Company's option at the prime rate, certificate of deposit plus 3/8% to 5/8%, Euro-dollar plus 1/4% to 1/2% or a money market rate. A facility fee ranging from 1/8% to 3/8% is required on the total commitment. The margins over the certificate of deposit, the Euro-dollar rates and the facility fee are based upon the Company's leverage ratio.

As of December 31, 2000, the Company had no unused borrowing capacity under the terms of its $100 million, annually renewable, commercial paper program. A large portion of the Company's accounts receivable are pledged as collateral to secure this program. This annually renewable program, which began in 1993, is scheduled to expire or be renewed on October 30th of each year. The commercial paper program has been renewed for the period of October 31, 2000 through October 30, 2001.

Total debt as a percentage of total capitalization was 43% at December 31, 2000 and 40% at December 31, 1999 and 1998. The increase during 2000 as compared to 1999 was due primarily to the 2000 purchase transactions, capital additions and stock purchases, as mentioned above, which were essentially financed with net cash provided by operating activities and borrowings generated from the issuance of the Debentures.

As of December 31, 2000, the Company had a five year interest rate swap having a notional principal amount of $135 million whereby the Company pays a floating rate and the counter-party pays the Company a fixed rate of 8.75%. The counter-party has the right to cancel the swap at any time during the swap term with thirty days notice. Simultaneously, the Company entered into a fixed rate swap having a notional principal amount of $135 million whereby the Company pays a fixed rate of 6.76% and receives a floating rate from the counter-party. In addition, the Company previously entered into forward starting interest rate swaps to fix the rate of interest on a total notional principal amount of $75 million. The forward start date on the interest rate swaps was August, 2000 with an original maturity date of August, 2010, which was reduced during 2000 to August, 2005. The average fixed rate of the $75 million of interest rate swaps, including the Company's current borrowing spread of .35%, is 7.05%. As of December 31, 1999 the Company had two interest rate swap agreements that fixed the rate of interest on a notional principal amount of $50 million for a period of three years. These interest rate swaps expired on January 4, 2000. The average fixed rate obtained through these interest rate swaps was 6.20% including the Company's borrowing spread of .425%

The effective interest rate on the Company's revolving credit, demand notes and commercial paper program, including the interest rate swap expense and income incurred on existing and now expired interest rate swaps, was 7.1%, 6.2% and 6.4% during 2000, 1999 and 1998, respectively. Additional interest expense and interest income recorded as a result of the Company's hedging activity was income of $414,000 in 2000 and expense of $202,000 and $75,000 in 1999 and 1998, respectively. The Company is exposed to credit loss in the event of non-performance by the counter-party to the interest rate swap agreements. All of the counterparties are creditworthy financial institutions rated AA or better by Moody's Investor Service and the Company does not anticipate non-performance. The estimated fair value of the cost to the Company to terminate the interest rate swap obligations at December 31, 2000 was approximately $4.3 million.

The Company expects to finance all capital expenditures and acquisitions with internally generated funds, borrowed funds and issuance of securities. 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.

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

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

## ITEM 8. Financial Statements and Supplementary Data

The Company's Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Common Stockholders' Equity, and Consolidated Statements of Cash Flows, together with the 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, 2000. 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, 2000.

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, 2000.

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, 2000.

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 30.

(b) Reports on Form 8-K

None.

(c) Exhibits

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

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

4.1 Authorizing Resolution adopted by the Pricing Committee of Universal Health Services, Inc. on August 1, 1995, related to $135 million principal amount of 8 3/4% Senior Notes due 2005, previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, is incorporated herein by reference.

4.2 Indenture dated as of July 15, 1995, between Universal Health Services, Inc. and PNC Bank, National Association, Trustee, previously filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, is incorporated herein by reference.

10.1 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.

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

10.3 Agreement, effective January 1, 2001, to renew Advisory Agreement, dated as of December 24, 1986, between Universal Health Realty Income Trust and UHS of Delaware, Inc.

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

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

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

10.7 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.

10.8 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.

10.9 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.

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

10.11 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.

10.12 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.

10.13 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.

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

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

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

10.17 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.

10.18 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.

10.19 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.

10.20 Credit Agreement, dated as of July 8, 1997 among Universal Health Services, Inc., various 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, 1997, is incorporated herein by reference.

10.21 Amendment No. 1, dated as of June 29, 1998, to the Credit Agreement dated as of July 8, 1997, among Universal Health Services, Inc., the Banks party thereto and Morgan Guaranty Trust Company of New York, as the Agent, previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, is incorporated herein by reference.

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

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

10.24 Asset Purchase Agreement dated as of April 19, 1996 by and among UHS of PENNSYLVANIA, INC., a Pennsylvania corporation, and subsidiary of UNIVERSAL HEALTH SERVICES, INC., a Delaware corporation, UHS, UHS OF DELAWARE, INC., a Delaware corporation and subsidiary of UHS, WELLINGTON REGIONAL MEDICAL CENTER, INC., a Florida corporation and subsidiary of UHS, FIRST HOSPITAL CORPORATION, a Virginia corporation, FHC MANAGEMENT SERVICES, INC., a Virginia corporation, HEALTH SERVICES MANAGEMENT, INC., a Pennsylvania corporation, HORSHAM CLINIC, INC., d/b/a THE HORSHAM CLINIC, a Pennsylvania corporation, CENTRE VALLEY MANAGEMENT, INC. d/b/a THE MEADOWS PSYCHIATRIC CENTER, a Pennsylvania corporation, CLARION FHC, INC. d/b/a CLARION PSYCHIATRIC CENTER, a Pennsylvania corporation, WESTCARE, INC., d/b/a ROXBURY, a Virginia corporation and FIRST HOSPITAL CORPORATION OF FLORIDA, a Florida corporation, previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, is incorporated herein by reference.

10.25 $36.5 million Term Note dated May 3, 1996 between Universal Health Services, Inc., a Delaware corporation, and First Hospital Corporation, Horsham Clinic, Inc. d/b/a Horsham Clinic, Centre Valley Management, Inc. d/b/a The Meadows Psychiatric Center, Clarion FHC, d/b/a/ Clarion Psychiatric Center, Westcare, Inc. d/b/a Roxbury, FHC Management Services, Inc., Health Services Management, Inc., First Hospital Corporation of Florida, previously filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, is incorporated herein by reference.

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

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

10.28 Deferred Compensation Plan for Universal Health Services Board of Directors, previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997, is incorporated herein by reference.

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

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

10.31 Supplemental Indenture Dated as of January 1, 1998 to Indenture Dated as of July 15, 1995 between Universal Health Services, Inc. and PNC BANK, National Association, Trustee, previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998, is incorporated herein by reference.

10.32 1992 Corporate Ownership Program, as Amended, previously filed as Exhibit 10.9 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1998, is incorporated herein by reference.

10.33 Amended and Restated 1992 Stock Option Plan.

22. Subsidiaries of Registrant.

24. Consent of Independent Public Accountants.

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 15, 2001

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<br>Alan B. Miller | Chairman of the Board, President and Director (Principal Executive Officer) | March 15, 2001 |
| /s/Anthony Pantaleoni<br>Anthony Pantaleoni | Director | March 15, 2001 |
| /s/Robert H. Hotz<br>Robert H. Hotz | Director | March 15, 2001 |
| /s/John H. Herrell<br>John H. Herrell | Director | March 15, 2001 |
| /s/John F. Williams, Jr., M.D.<br>John F. Williams, Jr., M.D. | Director | March 15, 2001 |
| /s/Leatrice Ducat<br>Leatrice Ducat | Director | March 15, 2001 |
| /s/Joseph T. Sebastianelli<br>Joseph T. Sebastianelli | Director | March 15, 2001 |
| /s/Kirk E. Gorman<br>Kirk E. Gorman | Senior Vice President and Chief Financial Officer | March 15, 2001 |
| /s/Steve Filton<br>Steve Filton | Vice President, Controller, Principal Accounting Officer and Secretary | March 15, 2001 |

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. (Delaware corporation) and subsidiaries as of December 31, 2000 and 1999, 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, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Universal Health Services, Inc. and subsidiaries as of December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Philadelphia, Pennsylvania
February 15, 2001

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| | (In thousands, except per share data) | | |
| Net revenues | $2,242,444 | $2,042,380 | $1,874,487 |
| Operating charges | | | |
| Salaries, wages and benefits | 873,747 | 793,529 | 728,013 |
| Other operating expenses | 515,084 | 475,070 | 438,065 |
| Supplies expense | 301,663 | 289,074 | 257,713 |
| Provision for doubtful accounts | 192,625 | 166,139 | 139,526 |
| Depreciation & amortization | 112,809 | 108,333 | 105,442 |
| Lease and rental expense | 49,039 | 49,029 | 46,516 |
| Interest expense, net | 29,941 | 26,872 | 27,117 |
| Nonrecurring charges | 7,747 | 5,300 | -- |
| | 2,082,655 | 1,913,346 | 1,742,392 |
| Income before minority interests and income taxes | 159,789 | 129,034 | 132,095 |
| Minority interests in earnings of consolidated entities | 13,681 | 6,251 | 9,083 |
| Income before income taxes | 146,108 | 122,783 | 123,012 |
| Provision for income taxes | 52,746 | 45,008 | 43,454 |
| Net income | $ 93,362 | $ 77,775 | $ 79,558 |
| Earnings per common share--basic | $ 3.10 | $ 2.48 | $ 2.45 |
| Earnings per common & common share equivalents--diluted | $ 3.01 | $ 2.43 | $ 2.39 |
| Weighted average number of common shares--basic | 30,110 | 31,417 | 32,511 |
| Weighted average number of common share equivalents | 2,300 | 573 | 782 |
| Weighted average number of common shares and equivalents--diluted | 32,410 | 31,990 | 33,293 |

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| | December 31, 2000 | December 31, 1999 |
|---|---|---|
| | (Dollar amounts in thousands) | |
| **ASSETS** | | |
| Current Assets | | |
| Cash and cash equivalents | $ 10,545 | $ 6,181 |
| Accounts receivable, net | 376,601 | 307,294 |
| Supplies | 45,518 | 41,173 |
| Deferred income taxes | 17,943 | 26,768 |
| Other current assets | 25,848 | 21,833 |
| Total current assets | 476,455 | 403,249 |
| Property and Equipment | | |
| Land | 109,744 | 94,891 |
| Buildings and improvements | 704,065 | 637,822 |
| Equipment | 441,623 | 381,934 |
| Property under capital lease | 25,563 | 25,605 |
| | 1,280,995 | 1,140,252 |
| Less accumulated depreciation | 512,704 | 437,837 |
| | 768,291 | 702,415 |
| Funds restricted for construction | 37,381 | 41,463 |
| Construction-in-progress | 69,955 | 33,175 |
| | 875,627 | 777,053 |
| Other assets | | |
| Excess of cost over fair value of net assets acquired | 316,777 | 276,031 |
| Deferred charges | 17,223 | 10,870 |
| Other | 56,295 | 30,770 |
| | 390,295 | 317,671 |
| | $1,742,377 | $1,497,973 |
| **LIABILITIES AND COMMON STOCKHOLDERS' EQUITY** | | |
| Current Liabilities | | |
| Current maturities of long-term debt | $ 689 | $ 3,506 |
| Accounts payable | 113,294 | 105,334 |
| Accrued liabilities | | |
| Compensation and related benefits | 52,361 | 51,759 |
| Interest | 4,964 | 5,984 |
| Taxes other than income | 15,296 | 11,015 |
| Other | 59,708 | 39,602 |
| Federal and state taxes | 2,528 | -- |
| Total current liabilities | 248,840 | 217,200 |
| Other Noncurrent Liabilities | 71,730 | 73,705 |
| Minority Interests | 120,788 | 115,635 |
| Long-Term Debt | 548,064 | 419,203 |
| Deferred Income Taxes | 36,381 | 30,619 |
| Commitments and Contingencies (Note 7) | | |
| Common Stockholders' Equity | | |
| Class A Common Stock, voting, $.01 par value;authorized 12,000,000 shares; issued and outstanding 1,924,443 shares in 2000 and 2,030,566 in 1999 | 19 | 20 |
| Class B Common Stock, limited voting, $.01 par value; authorized 75,000,000 shares; issued and outstanding 27,774,656 shares in 2000 and 28,392,100 in 1999 | 278 | 284 |
| Class C Common Stock, voting, $.01 par value; authorized 1,200,000 shares; issued and outstanding 193,924 shares in 2000 and 204,593 in 1999 | 2 | 2 |
| Class D Common Stock, limited voting, $.01 par value; authorized 5,000,000 shares; issued and outstanding 22,265 shares in 2000 and 24,857 in 1999 | -- | -- |
| Capital in excess of par value, net of deferred compensation of $485 in 2000 and $116 in 1999 | 139,953 | 158,345 |
| Retained earnings | 576,322 | 482,960 |
| | 716,574 | 641,611 |

| | |
|---|---|
| $1,742,377 | $1,497,973 |

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, 2000, 1999, and 1998

| | Class A Common | Class B Common | Class C Common | Class D Common | Capital in Excess of Par Value | Retained Earnings | Total |
|---|---|---|---|---|---|---|---|
| | (Amounts in thousands) | | | | | | |
| Balance January 1, 1998 | $21 | $301 | $2 | -- | $200,656 | $325,627 | $526,607 |
| Common Stock | | | | | | | |
| Issued | -- | 4 | -- | -- | 10,791 | -- | 10,795 |
| Repurchased | -- | (6) | -- | -- | (24,900) | -- | (24,906) |
| Amortization of deferred compensation | -- | -- | -- | -- | 216 | -- | 216 |
| After-tax gain on partial sale of subsidiary | -- | -- | -- | -- | 34,737 | -- | 34,737 |
| Net income | -- | -- | -- | -- | -- | 79,558 | 79,558 |
| Balance January 1, 1999 | 21 | 299 | 2 | -- | 221,500 | 405,185 | 627,007 |
| Common Stock | | | | | | | |
| Issued | (1) | 5 | -- | -- | 7,956 | -- | 7,960 |
| Repurchased | -- | (20) | -- | -- | (71,205) | -- | (71,225) |
| Amortization of deferred compensation | -- | -- | -- | -- | 94 | -- | 94 |
| Net income | -- | -- | -- | -- | -- | 77,775 | 77,775 |
| Balance January 1, 2000 | 20 | 284 | 2 | -- | 158,345 | 482,960 | 641,611 |
| Common Stock | | | | | | | |
| Issued | (1) | 6 | -- | -- | 16,629 | -- | 16,634 |
| Repurchased | -- | (12) | -- | -- | (35,973) | -- | (35,985) |
| Amortization of deferred compensation | -- | -- | -- | -- | 952 | -- | 952 |
| Net income | -- | -- | -- | -- | -- | 93,362 | 93,362 |
| Balance December 31, 2000 | $19 | $278 | $2 | -- | $139,953 | $576,322 | $716,574 |

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 | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| | (Amounts in thousands) | | |
| Cash Flows from Operating Activities: | | | |
| Net income | $ 93,362 | $ 77,775 | $ 79,558 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 112,809 | 108,333 | 105,442 |
| Minority interests in earnings of consolidated entities | 13,681 | 6,251 | 9,083 |
| Accretion of discount on Convertible Debentures | 5,239 | -- | -- |
| Other non-cash charges | 7,747 | 5,300 | -- |
| Changes in assets and liabilities, net of effects from acquisitions and dispositions: | | | |
| Accounts receivable | (29,391) | (37,958) | (20,060) |
| Accrued interest | (1,020) | (157) | 1,459 |
| Accrued and deferred income taxes | 28,489 | (3,370) | 3,541 |
| Other working capital accounts | 1,408 | 32,371 | (8,327) |
| Other assets and deferred charges | (17,237) | (5,775) | (6,220) |
| Increase in working capital at acquired facilities | (24,155) | -- | -- |
| Other | (6,209) | 2,957 | (2,837) |
| Accrued insurance expense, net of commercial premiums paid | 9,012 | 7,485 | 8,933 |
| Payments made in settlement of self-insurance claims | (11,281) | (17,655) | (18,888) |
| Net cash provided by operating activities | 182,454 | 175,557 | 151,684 |
| Cash Flows from Investing Activities: | | | |
| Property and equipment additions | (113,900) | (67,576) | (96,808) |
| Acquisition of businesses | (141,333) | (31,588) | (189,332) |
| Proceeds received from merger, sale or disposition of assets | 16,253 | 16,358 | 16,404 |
| Investment in business | (12,273) | -- | -- |
| Net cash used in investing activities | (251,253) | (82,806) | (269,736) |
| Cash Flows from Financing Activities: | | | |
| Additional borrowings, net of financing costs | 252,566 | 15,150 | 152,199 |
| Reduction of long-term debt | (141,045) | (15,830) | (8,050) |
| Distributions to minority partners | (7,633) | (18,439) | (1,751) |
| Issuance of common stock | 5,260 | 2,514 | 1,488 |
| Repurchase of common shares | (35,985) | (71,225) | (24,906) |
| Net cash provided by (used in) financing activities | 73,163 | (87,830) | 118,980 |
| Increase in Cash and Cash Equivalents | 4,364 | 4,921 | 928 |
| Cash and Cash Equivalents, Beginning of Period | 6,181 | 1,260 | 332 |
| Cash and Cash Equivalents, End of Period | $ 10,545 | $ 6,181 | $ 1,260 |
| Supplemental Disclosures of Cash Flow Information: | | | |
| Interest paid | $ 25,722 | $ 27,029 | $ 25,658 |
| Income taxes paid, net of refunds | $ 24,284 | $ 48,833 | $ 39,913 |
| Supplemental Disclosures of Noncash Investing and Financing Activities: See Notes 2 and 6 | | | |

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of Universal Health Services, Inc. (the "Company"), its majority-owned subsidiaries and partnerships controlled by the Company or its subsidiaries as the managing general partner. All significant intercompany accounts and transactions have been eliminated.

Nature of Operations: The principal business of the Company is owning and operating, through its subsidiaries, acute care hospitals, behavioral health centers, ambulatory surgery centers, radiation oncology centers and women's centers. At December 31, 2000, the Company operated 23 acute care hospitals, 35 behavioral health centers and a specialized women's health center, located in 22 states, the District of Columbia and Puerto Rico. The Company, as part of its Ambulatory Treatment Centers Division owns outright, or in partnership with physicians, and operates or manages 25 surgery and radiation oncology centers located in 12 states and the District of Columbia. As of December 31, 2000, the Company held majority interests in three separate partnerships/limited liability companies which own the property of, and manage, three radiation therapy centers located in Kentucky and California. Since the Company does not control the operations of these centers, the operating results of these centers are not included in the Company's consolidated financial statements.

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

Net revenues from the Company's acute care hospitals, ambulatory and outpatient treatment centers and women's center accounted for 84%, 86%, and 87% of consolidated net revenues in 2000, 1999 and 1998, respectively. Net revenues from the Company's behavioral health care facilities accounted for 16%, 13% and 12% of consolidated net revenues in 2000, 1999 and 1998, respectively.

The more significant accounting policies follow:

Net Revenues: Net revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors due to future audits, reviews and investigations. 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 or as years are no longer subject to such audits, reviews and investigations. Medicare and Medicaid net revenues represented 44%, 46% and 46% of net patient revenues for the years 2000, 1999 and 1998, respectively. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. In addition, approximately 35% in 2000, 32% in 1999 and 27% in 1998 of the Company's net patient revenues were generated from managed care companies which includes health maintenance organizations and preferred provider organizations.

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

Concentration of Revenues: The three facilities operating in the Las Vegas market contributed on a combined basis 18% of the Company's 2000 consolidated net revenues. The two facilities located in the McAllen/Edinburg, Texas market contributed on a combined basis, 12% of the Company's 2000 consolidated net revenues.

Accounts Receivable: Accounts receivable are recorded at the estimated net realizable amounts from patients, third-party payors and others for services rendered, net of contractual allowances and net of allowance for doubtful accounts of $65.4 million and $55.7 million in 2000 and 1999, respectively.

Property and Equipment: Property and equipment are stated at cost. Expenditures for renewals and improvements are charged to the property accounts. Replacements, maintenance and repairs which do not improve or extend the life of the respective asset are expensed as incurred. The Company removes the cost and the related accumulated depreciation from the accounts for assets sold or retired and the resulting gains or losses are included in the results of operations. The Company capitalized $453,000 of interest costs related to construction in progress in 2000. No interest was capitalized in 1999 and 1998.

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

Other Assets: The excess of cost over fair value of net assets acquired in purchase transactions, net of accumulated amortization of $113.0 million in 2000 and $91.4 million in 1999, is amortized using the straight-line method over periods ranging from five to forty years. As of December 31, 2000, the weighted average amortization period is approximately nineteen years.

During 1994, the Company established an employee life insurance program covering approximately 2,200 employees. The cash surrender value of the policies ( $18.5 million at December 31, 2000 and $20.0 million at December 31, 1999) was recorded net of related loans ($18.4 million at December 31, 2000 and $20.0 million at December 31, 1999) and is included in other assets.

During 2000, the Company invested $12 million to acquire a minority ownership interest in an e-commerce marketplace for the purchase and sale of health care supplies, equipment and services, accounted at cost.

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. Measurement of the impairment loss is based on the fair value of the asset. Generally, fair value will be determined using valuation techniques such as the present value of expected future cash flows.

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, workers' compensation reserves and pension liability.

Minority Interest Liabilities: As of December 31, 2000 and 1999, the $120.8 million and $115.6 million minority interest balance consists primarily of a 27.5% outside ownership interest in three acute care facilities located in Las Vegas, Nevada and a 20% outside ownership interest in an acute care facility located in Washington, DC.

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

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated.

| | Twelve Months Ended December 31, | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| | (in thousands, except per share data) | | |
| Basic: | | | |
| Net income | $93,362 | $77,775 | $79,558 |
| Average shares outstanding | 30,110 | 31,417 | 32,511 |
| Basic EPS | $ 3.10 | $ 2.48 | $ 2.45 |
| Diluted: | | | |
| Net income | $93,362 | $77,775 | $79,558 |
| Add discounted convertible debenture interest, net of income tax effect | 4,092 | -- | -- |
| Totals | $97,454 | $77,775 | $79,558 |
| Average shares outstanding | 30,110 | 31,417 | 32,511 |
| Net effect of dilutive stock options and grants based on the treasury stock method | 548 | 573 | 782 |
| Assumed conversion of discounted convertible debentures | 1,752 | -- | -- |
| Totals | 32,410 | 31,990 | 33,293 |
| Diluted EPS | $ 3.01 | $ 2.43 | $ 2.39 |

Stock-Based Compensation: SFAS No. 123 encourages a fair value based method of accounting for employee stock options and similar equity instruments, which generally would result in the recording of additional compensation expense in the Company's financial statements. The Statement also allows the Company to continue to account for stock-based employee compensation using the intrinsic value for equity instruments using APB Opinion No. 25. The Company has adopted the disclosure-only provisions of SFAS No. 123. Accordingly, no compensation cost has been recognized for the stock option plans in the accompanying financial statements.

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 $2.7 million in 2000, $2.6 million in 1999, and $2.6 million in 1998.

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. Gains and losses on terminated interest rate swap agreements are amortized into income over the remaining life of the underlying debt obligation or the remaining life of the original swap, if shorter.

Fair Value of Financial Instruments: The fair values of the Company's registered debt, interest rate swap agreements and investments are based on quoted market prices. The carrying amounts reported in the balance sheet for cash, accrued liabilities, and short-term borrowings approximates their fair values due to the short-term nature of these instruments. Accordingly, these items have been excluded from the fair value disclosures included elsewhere in these notes to consolidated financial statements.

Comprehensive Income: Net income as reported by the Company reflects total comprehensive income for the years ended December 31, 2000, 1999 and 1998.

Equity Instruments Indexed to the Company's Common Stock: Proceeds received upon the sale of equity instruments and amounts paid upon the purchase of equity instruments are recorded as a component of stockholders' equity. Subsequent changes in the fair value of the equity instrument contracts are not recognized. If the contracts are ultimately settled in cash, the amount of cash paid or received is recorded as a component of stockholders' equity.

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

Accounting for Derivative Instruments and Hedging Activities: The Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which established accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allow a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

The Company has adopted SFAS No. 133 effective January 1, 2001. The adoption of this new standard as of January 1, 2001 will result in a cumulative effect of an accounting change of approximately $1.7 million in earnings to recognize at fair value all derivatives that are designated as fair-value hedging instruments and a cumulative effect of an accounting change of approximately $1.7 million to recognize the difference between the carrying values and fair values of related hedged assets and liabilities. Changes in the fair value of derivatives that are designated as fair-value hedging instruments and related hedged assets and liabilities will be recognized in current earnings.

The Company would have also recorded a cumulative effect of an accounting change of approximately $2.6 million in other comprehensive income to recognize at fair value all derivatives that are designated as cash flow hedging instruments. The Company believes that its hedges are highly effective with changes in effectiveness expected to be reported in other comprehensive income. Changes in any ineffectiveness will be reported in current earnings.

2) ACQUISITIONS AND DIVESTITURES

2001 -- Subsequent to year end, the Company acquired the following facilities for a total investment, including working capital, of approximately $112 million: (i) a 108-bed behavioral health care facility located in San Juan Capestrano, Puerto Rico; (ii) a 96-bed acute care facility located in Murrieta, California; (iii) two behavioral health care facilities located in Boston, Massachusetts, and; (iv) a 60-bed specialty heart hospital located in McAllen, Texas.

2000 -- During the third quarter of 2000, the Company acquired a 277-bed acute care facility located in Enid, Oklahoma for a purchase price of approximately $38 million. During the fourth quarter of 2000, the Company acquired 12 behavioral health care facilities located in Pennsylvania, Delaware, Georgia, Kentucky, South Carolina, Tennessee, Mississippi, Utah and Texas for a combined purchase price of approximately $91 million. Also during the fourth quarter of 2000, the Company acquired a 77-bed acute care facility located in Eagle Pass, Texas, for a purchase price of approximately $10 million. The Company also spent $2 million during the year to purchase the operations of a behavioral health care facility in Texas.

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

| | Amount (000s) |
|---|---|
| Working capital, net | $ 5,000 |
| Property, plant and equipment | 77,000 |
| Goodwill | 58,000 |
| Other assets | 1,000 |
| Total Cash Purchase Price | $141,000 |

The Company does not believe that the final purchase price allocations will differ significantly from the preliminary purchase price allocations at December 31, 2000. The increases of $24.2 million in other working capital accounts at acquired facilities from their date of acquisition through December 31, 2000 consisted of the following:

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

Assuming the above mentioned 2000 acquisitions had been completed as of January 1, 2000, the unaudited pro forma net revenues and net income for the year ended December 31, 2000 would have been approximately $2.4 billion and $100.4 million, respectively, and the unaudited pro forma basic and diluted earnings per share would have been $3.34 and $3.23, respectively. Assuming the 2000 acquisitions had been completed as of January 1, 1999, the unaudited pro forma net revenues and net income for the year ended December 31, 1999 would have been approximately $2.3 billion and $90.1 million, respectively, and the unaudited pro forma basic and diluted earnings per share would have been $2.87 and $2.82, respectively.

During 2000, the Company received net proceeds of $16 million resulting from the divestiture of the real property of a behavioral health care facility located in Florida, a medical office building located in Nevada and its ownership interests in a specialized women's health center and two physician practices located in Oklahoma. The Company received $10.5 million of proceeds for the medical office building, referred to above, which was sold to a limited liability company that is majority owned by Universal Health Realty Income Trust. The net gain/loss resulting from these transactions did not have a material impact on the 2000 results of operations.

1999 -- During the second quarter of 1999, the Company acquired three behavioral health care facilities located in Illinois, Indiana and New Jersey for a combined purchase price of approximately $27 million, plus contingent consideration of up to $3 million. Also during the second quarter of 1999, the Company exchanged the operations and assets of a 147-bed acute care facility located in Victoria, Texas for the assets and operations of a 117-bed acute care facility located in Laredo, Texas. No gain or loss resulted from this exchange transaction since the fair value of assets acquired was equal to the book value of assets surrendered. In connection with this transaction, the Company also spent $5 million to purchase additional land in Laredo, Texas on which it is constructing a replacement hospital scheduled to be completed and opened during the third quarter of 2001. During 1999, the Company received total proceeds of $16 million generated primarily from the sale of the real property of two medical office buildings ($14 million). The net gain/loss resulting from these transactions was not material. One of these medical office buildings was sold to a limited liability company that is majority owned by Universal Health Realty Income Trust for cash proceeds of $13 million. The aggregate net purchase price of the facilities and land acquired, including the fair value of exchanged facility, was allocated to assets and liabilities based on their estimated fair values as follows:

| | Amount (000s) |
|---|---|
| Working capital, net | $11,000 |
| Property, plant & equipment | 6,000 |
| Goodwill | 15,000 |
| Total Cash Purchase Price | $32,000 |

Assuming the acquisitions of the three behavioral health care facilities occurred on January 1, 1999 the effect on the December 31,1999 unaudited pro forma net revenues, net income and basic and diluted earnings per share would have been immaterial.

1998 -- During the first quarter of 1998, the Company acquired three hospitals located in Puerto Rico for an aggregate purchase price of $187 million. The hospitals acquired were Hospital San Pablo located in Bayamon (430-beds), Hospital San Francisco located in Rio Piedras (160-beds) and Hospital San Pablo del Este located in Fajardo (180-beds). The Hospital San Pablo del Este, which had been closed prior to acquisition, was reopened in April, 1998 after completion of renovations.

Also during the first quarter of 1998, the Company contributed substantially all of the assets, liabilities and operations of Valley Hospital Medical Center, a 417-bed acute care facility, and its newly-constructed Summerlin Hospital, a 148-bed acute care facility in exchange for a 72.5% interest in a series of newly-formed limited liability corporations ("LLCs"). Quorum Health Group, Inc. ("Quorum") holds the remaining 27.5% interest in the LLCs. Quorum obtained its interest by contributing substantially all of the assets, liabilities and operations of Desert Springs Hospital, a 241-bed acute care facility, and $11 million of net cash to the LLCs. The assets and liabilities contributed by the Company were recorded by the LLCs at carryover value. The LLCs applied purchase accounting to the assets and liabilities provided by Quorum and recorded them at fair market value. As a result of this partial sale transaction, the Company recorded a pre-tax gain of $55.1 million ($34.7 million after-tax) that was recorded as a capital contribution to the Company. The Company elected the option of recording the gain to capital in excess of par value in the consolidated balance sheet. The option must be consistently applied to all future gains and losses arising from similar transactions and is adopted as the Company's accounting policy. Also during 1998, the Company spent $2 million to purchase the property of a radiation therapy center located in California.

The aggregate net purchase price of the transactions mentioned above of $178 million ($189 million cash paid less $11 million of net cash received), was allocated to assets and liabilities based on their estimated fair values as follows:

| | Amount (000s) |
|---|---|
| Working capital, net | $ 34,000 |
| Land | 23,000 |
| Buildings & equipment | 110,000 |
| Goodwill | 152,000 |
| Minority interest liability | (85,000) |
| Deferred income taxes | (21,000) |
| Additional paid in capital | (35,000) |
| Total Purchase Price | $178,000 |

Assuming the 1998 acquisition of Hospital San Pablo and Hospital San Francisco had been completed as of January 1, 1998, the effect on the December 31, 1998 unaudited pro forma net revenues, net income and basic and diluted earnings per share would have been immaterial, as the acquisitions occurred early in 1998.

3) LONG-TERM DEBT

A summary of long-term debt follows:

| | December 31 2000 | December 31 1999 |
|---|---|---|
| | (000s) | |
| Long-term debt: | | |
| Notes payable and Mortgages payable (including obligations under capitalized Leases of $2,821 in 2000 and $2,866 in 1999) with varying maturities through 2005; weighted average interest at 7.9% in 2000 and 7.0% in 1999(see Note 6 regarding capitalized leases) | $ 2,869 | $ 6,240 |
| Revolving credit and demand notes | 37,955 | 173,890 |
| Commercial paper | 100,000 | 90,000 |
| Revenue bonds: | | |
| Interest at floating rates ranging from 4.8% to 5.0% at December 31, 2000 with varying maturities through 2015 | 18,200 | 18,200 |
| 8.75% Senior Notes due 2005, net of the unamortized discount of $510 in 2000 and $621 in 1999 | 134,490 | 134,379 |
| 5.00% Convertible Debentures due 2020, net of the unamortized discount of $331,753 in 2000 | 255,239 | -- |
| | 548,753 | 422,709 |
| Less-Amounts due within one year | 689 | 3,506 |
| | $548,064 | $419,203 |

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

The Company has $135 million of Senior Notes which have an 8.75% coupon rate and which mature on August 15, 2005. The Notes can be redeemed in whole or in part, at any time on or after August 15, 2000, initially at a price of 102%, declining ratably to par on or after August 15, 2002. The interest on the bonds is paid semiannually in arrears on February 15 and August 15 of each year. In anticipation of the Senior Note issuance, the Company entered into interest rate swap agreements having a total notional principal amount of $100 million to hedge the interest rate on the Notes. These interest rate swaps were terminated simultaneously with the issuance of the Notes at which time the Company paid a net termination fee of $5.4 million which is being amortized ratably over the ten year term of the Senior Notes. The effective rate on the Notes including the amortization of swap termination fees and bond discount is 9.2%.

The Company has a $400 million unsecured non-amortizing revolving credit agreement, which expires on July 8, 2002. The agreement includes a $50 million sublimit for letters of credit, of which $43 million was available at December 31, 2000. The interest rate on borrowings is determined at the Company's option at the prime rate, certificate of deposit rate plus .375% to .625%, Euro-dollar plus .25% to .50% or a money market rate. A facility fee ranging from .125% to .375% is required on the total commitment. The margins over the certificate of deposit, the Euro-dollar rates and the facility fee are based upon the Company's leverage ratio. At December 31, 2000, the applicable margins over the certificate of deposit and the Euro-dollar rate were .475% and .350%, respectively, and the commitment fee was .15%. There are no compensating balance requirements. At December 31, 2000, the Company had $355 million of unused borrowing capacity available under the revolving credit agreement.

The Company also has a $100 million commercial paper credit facility. A large portion of the Company's acute care patient accounts receivable are pledged as collateral to secure this commercial paper program. A commitment fee of .40% is required on the used portion and .20% on the unused portion of the commitment.
This annually renewable program, which began in November 1993, is scheduled to expire or be renewed on October 30th of each year. Outstanding amounts of commercial paper which can be refinanced through available borrowings under the Company's revolving credit agreement are classified as long-term. As of December 31, 2000, the Company had no unused borrowing capacity under the terms of the commercial paper facility.

The average amounts outstanding during 2000, 1999 and 1998 under the revolving credit and demand notes and commercial paper program were $170.0 million, $246.1 million and $234.2 million, respectively, with corresponding effective interest rates of 7.4%, 6.2% and 6.4% including commitment and facility fees. The maximum amounts outstanding at any month-end were, $270.9 million in 2000, $263.9 million in 1999 and $289.6 million in 1998.

As of December 31, 2000, the Company had a five year interest rate swap having a notional principal amount of $135 million whereby the Company pays a floating rate and the counter-party pays the Company a fixed rate of 8.75% plus a non-cancelable fixed rate payment of .465%. The counter-party has the right to cancel the swap at any time during the swap term with thirty days notice excluding the non-cancelable fixed rate payment. Simultaneously, the Company entered into a fixed rate swap having a notional principal amount of $135 million whereby the Company pays a fixed rate of 6.76% and receives a floating rate from the counter-party. In addition, the Company previously entered into forward starting interest rate swaps to fix the rate of interest on a total notional principal amount of $75 million. The forward start date on the interest rate swaps was August, 2000 with an original maturity date of August, 2010, which was reduced during 2000 to August, 2005. The average fixed rate of the $75 million of interest rate swaps, including the Company's current borrowing spread of .35%, is 7.05%. As of December 31, 1999, the Company had two interest rate swap agreements that fixed the rate of interest on a notional principal amount of $50 million for a period of three years. These interest rate swaps expired on January 4, 2000. The average fixed rate obtained through these interest rate swaps was 6.20% including the Company's borrowing spread of .425%

The effective interest rate on the Company's revolving credit, demand notes and commercial paper program, including the interest rate swap expense and income incurred on existing and now expired interest rate swaps, was 7.1%, 6.2% and 6.4% during 2000, 1999 and 1998, respectively. Additional interest expense and interest income recorded as a result of the Company's hedging activity was income of $414,000 in 2000 and expense of $202,000 and $75,000 in 1999 and 1998, respectively. The Company is exposed to credit loss in the event of non-performance by the counter-party to the interest rate swap agreements. All of the counterparties are creditworthy financial institutions rated AA or better by Moody's Investor Service and the Company does not anticipate non-performance. The estimated fair value of the cost to the Company to terminate the interest rate swap obligations at December 31, 2000 and 1999 was approximately $4.3 million and $2.9 million, respectively.

Covenants relating to long-term debt require maintenance of a minimum net worth, specified debt to total capital and fixed charge coverage ratios. The Company is in compliance with all required covenants as of December 31, 2000.

The fair value of the Company's long-term debt at December 31, 2000 and 1999 was approximately $693.3 million and $420.5 million, respectively.

Aggregate maturities follow:

| | (000s) |
|---|---|
| 2001 | $ 689 |
| 2002 | 138,966 |
| 2003 | 588 |
| 2004 | 349 |
| 2005 | 134,696 |
| Later | 605,218 |
| Total | $880,506 |
| Less: Discount on Convertible Debentures | (331,753) |
| Net Total | $548,753 |

4) COMMON STOCK

During 1998 and 1999, the Company's Board of Directors approved stock purchase programs authorizing the Company to purchase up to six million shares of its outstanding Class B Common Stock on the open market at prevailing market prices or in negotiated transactions off the market. Pursuant to the terms of these programs, the Company purchased 580,500 shares at an average purchase price of $42.90 per share ($24.9 million in the aggregate) during 1998, 2,028,379 shares at an average purchase price of $35.10 per share ($71.2 million in the aggregate) during 1999 and 1,204,000 shares at an average purchase price of $29.90 per share ($36.0 million in the aggregate) during 2000. Since inception of the stock purchase program in 1998 through December 31, 2000, the Company purchased a total of 3,812,879 shares at an average purchase price of $34.65 per share ($132.1 million in the aggregate).

At December 31, 2000, 8,562,425 shares of Class B Common Stock were reserved for issuance upon conversion of shares of Class A, C and D Common Stock outstanding, for issuance upon exercise of options to purchase Class B Common Stock, for issuance upon conversion of the Company's discounted Convertible Debentures, and for issuance of stock under other incentive plans. Class A, C and D Common Stock are convertible on a share for share basis into Class B Common Stock.

SFAS No. 123 requires the Company to disclose pro-forma net income and pro-forma earnings per share as if compensation expense were recognized for options granted beginning in 1995. Using this approach, the Company's net earnings and earnings per share would have been the pro forma amounts indicated below:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| | (000s, except per share amounts) | | |
| Net Income: | | | |
| As Reported | $93,362 | $77,775 | $79,558 |
| Pro Forma | $90,199 | $75,298 | $78,362 |
| Earnings Per Share: | | | |
| As Reported: | | | |
| Basic | $ 3.10 | $ 2.48 | $ 2.45 |
| Diluted | $ 3.01 | $ 2.43 | $ 2.39 |
| Pro Forma: | | | |
| Basic | $ 3.00 | $ 2.40 | $ 2.41 |
| Diluted | $ 2.91 | $ 2.35 | $ 2.35 |

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following range of assumptions used for the thirteen option grants that occurred during 2000, 1999 and 1998:

| Year Ended December 31, | 2000 | 1999 | 1998 |
|---|---|---|---|
| Volatility | 21%-44% | 21%-38% | 21%-28% |
| Interest rate | 5%-7% | 5%-6% | 5%-6% |
| Expected life (years) | 3.7 | 4.3 | 4.1 |
| Forfeiture rate | 1% | 3% | 2% |

Stock-based compensation costs on a pro forma basis would have reduced pretax income by $5.1 million ($3.2 million after tax) in 2000, $4.0 million ($2.5 million after tax) in 1999 and $1.9 million ($1.2 million after tax) in 1998. Because the SFAS 123 method of accounting has not been applied to options granted prior to January 1, 1995, the resulting pro forma disclosures may not be representative of that to be expected in future years.

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

Information with respect to these options is summarized as follows:

| Outstanding Options | Number of Shares | Average Option Price | Range (High-Low) |
|---|---|---|---|
| Balance, January 1, 1998 | 1,415,573 | $18.71 | $44.56-$ 7.44 |
| Granted | 448,000 | $51.73 | $56.56-$47.81 |
| Exercised | (262,511) | $14.46 | $41.25-$ 7.44 |
| Cancelled | (8,500) | $37.89 | $47.81-$23.25 |
| Balance, January 1, 1999 | 1,592,562 | $28.60 | $56.56-$ 9.81 |
| Granted | 641,330 | $32.49 | $51.12-$23.69 |
| Exercised | (467,587) | $11.52 | $41.25-$ 9.81 |
| Cancelled | (63,850) | $41.40 | $52.00-$16.56 |
| Balance, January 1, 2000 | 1,702,455 | $34.28 | $56.56-$14.63 |
| Granted | 264,500 | $46.10 | $67.44-$44.56 |
| Exercised | (727,870) | $27.61 | $56.56-$14.63 |
| Cancelled | (47,063) | $43.07 | $56.56-$23.69 |
| Balance, December 31, 2000 | 1,192,022 | $40.63 | $67.44-$23.69 |

Outstanding Options at December 31, 2000:

| Number of Shares | Average Option Price | Range (High-Low) | Contractual Life |
|---|---|---|---|
| 305,250 | $24.58 | $37.88-$23.69 | 3.7 |
| 886,772 | $48.08 | $67.44-$40.44 | 3.1 |
| 1,192,022 | | | |

All stock options were granted with an exercise price equal to the fair market value on the date of the grant. Options are exercisable ratably over a four-year period beginning one year after the date of the grant. The options expire five years after the date of the grant. The outstanding stock options at December 31, 2000 have an average remaining contractual life of 3.3 years. At December 31, 2000, options for 526,782 shares were available for grant. At December 31, 2000, options for 230,392 shares of Class B Common Stock with an aggregate purchase price of $9.6 million (average of $41.78 per share) were exercisable. In connection with the stock option plan, the Company provides the optionee with a three year loan to cover the tax liability incurred upon exercise of the options. The loan is forgiven on the maturity date if the optionee is employed by the Company on that date. The Company recorded compensation expense over the service period and recognized compensation expense of $6.5 million in 2000, $7.6 million in 1999 and $8.4 million in 1998 in connection with this loan program.

In addition to the stock option plan the Company has the following stock incentive and purchase plans: (i) a Stock Compensation Plan which expires in November, 2004 under which Class B Common Shares may be granted to key employees, consultants and independent contractors (officers and directors are ineligible); (ii) a Stock Ownership Plan whereby eligible employees may purchase shares of Class B Common Stock directly from the Company at current market value and the Company will loan each eligible employee 90% of the purchase price for the shares, subject to certain limitations, (loans are partially recourse to the employees); (iii) a Restricted Stock Purchase Plan which allows eligible participants to purchase shares of Class B Common Stock at par value, subject to certain restrictions, and; (iv) a Stock Purchase Plan which allows eligible employees to purchase shares of Class B Common Stock at a ten percent discount. The Company has reserved 2 million shares of Class B Common Stock for issuance under these various plans and has issued 1,073,063 shares pursuant to the terms of these plans as of December 31, 2000, of which 27,038, 57,680 and 42,010 became fully vested during 2000, 1999 and 1998, respectively. Compensation expense of $300,000 in 2000, $1.1 million in 1999 and $488,000 in 1998 was recognized in connection with these plans.

5) INCOME TAXES

Components of income tax expense are follows:

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| | | (000s) | |
| Currently payable | | | |
| Federal | $35,506 | $48,558 | $18,731 |
| State | 3,217 | 4,449 | 1,738 |
| | 38,723 | 53,007 | 20,469 |
| Deferred | | | |
| Federal | 12,884 | (7,350) | 21,122 |
| State | 1,139 | (649) | 1,863 |
| | 14,023 | (7,999) | 22,985 |
| Total | $52,746 | $45,008 | $43,454 |

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

| | Year Ended December 31, | |
|---|---|---|
| | 2000 | 1999 |
| | (000s) | |
| Self-insurance reserves | $ 26,475 | $ 30,305 |
| Doubtful accounts and other reserves | (9,393) | 8,541 |
| State income taxes | (712) | (1,354) |
| Other deferred tax assets | 21,057 | 10,084 |
| Depreciable and amortizable assets | (55,865) | (51,427) |
| Total deferred taxes | ($ 18,438) | ($ 3,851) |

=== ===

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Federal statutory rate...... | 35.0% | 35.0% | 35.0% |
| Deductible depreciation, amortization and other..... | (0.8) | (0.2) | (1.6) |
| State taxes, net of federal income tax benefit......... | 1.9 | 1.9 | 1.9 |
| Effective tax rate...... | 36.1% | 36.7% | 35.3% |

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

| | Year Ended December 31, | |
|---|---|---|
| | 2000 | 1999 |
| | (000s) | |
| Current deferred taxes | | |
| Assets........................................ | $27,114 | $ 26,768 |
| Liabilities................................... | (9,171) | -- |
| Total deferred taxes--current............... | 17,943 | 26,768 |
| Noncurrent deferred taxes | | |
| Assets........................................ | 20,418 | 22,384 |
| Liabilities................................... | (56,799) | (53,003) |
| Total deferred taxes-noncurrent............. | (36,381) | (30,619) |
| Total deferred taxes............................ | ($ 18,438) | ($ 3,851) |

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

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 2006 (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:

| | Year Ended December 31, | |
|---|---|---|
| | 2000 | 1999 |
| | (000s) | |

| | | |
|---|---|---|
| Land, buildings and equipment | $ 25,563 | $ 25,605 |
| Less: accumulated amortization | (22,994) | (22,902) |
| | $2,569 | $ 2,703 |

Future minimum rental payments under lease commitments with a term of more than one year as of December 31, 2000, are as follows:

| Year | Capital Leases | Operating Leases |
|---|---|---|
| | (000s) | |
| 2001 | $ 837 | $19,612 |
| 2002 | 1,177 | 12,508 |
| 2003 | 653 | 9,345 |
| 2004 | 380 | 7,747 |
| 2005 | 213 | 5,126 |
| Later Years | 0 | 5,148 |
| Total minimum rental | $3,260 | $59,486 |
| Less: Amount representing interest | 439 | |
| Present value of minimum rental commitments | 2,821 | |
| Less: Current portion of capital lease obligations | 668 | |
| Long-term portion of capital lease obligations | $2,153 | |

Capital lease obligations of $1.9 million in 2000, $1.1 million in 1999 and $160,000 in 1998 were incurred when the Company entered into capital leases for new equipment.

## 7) COMMITMENTS AND CONTINGENCIES

Effective January 1, 1998, the Company's subsidiaries are covered under commercial insurance policies which provide for a self-insured retention limit for professional and general liability claims for most of its subsidiaries up to $1 million per occurrence, with an average annual aggregate for covered subsidiaries of $7 million through 2001. These subsidiaries maintain excess coverage up to $100 million with major insurance carriers. The Company's remaining facilities are fully insured under commercial policies with excess coverage up to $100 million maintained with major insurance carriers. During 1996 and 1997, most of the Company's subsidiaries were self-insured for professional and general liability claims up to $5 million per occurrence, with excess coverage maintained up to $100 million with major insurance carriers. From 1986 to 1995, these subsidiaries were self-insured for professional and general liability claims up to $25 million and $5 million per occurrence, respectively. Since 1993, certain of the Company's subsidiaries, including one of its larger acute care facilities, have purchased general and professional liability occurrence policies with commercial insurers. These policies include coverage up to $25 million per occurrence for general and professional liability risks.

As of December 2000 and 1999, the reserve for professional and general liability claims was $57.9 million and $58.5 million, respectively, of which $9.0 million and $7.3 million in 2000 and 1999, respectively, is included in current liabilities. Self-insurance reserves are based upon actuarially determined estimates. These estimates are based on historical information along with certain assumptions about future events. Changes in assumptions for such things as medical costs as well as changes in actual experience could cause these estimates to change in the near term.

The Company has outstanding letters of credit totaling $57.3 million consisting of: (i) a $40 million surety bond related to the Company's 1997 acquisition of an 80% interest in the George Washington University Hospital; (ii) $11.9 million related to the Company's self insurance programs; (iii) $4.7 million as support for a loan guarantee for an unaffiliated party, and; (iv) $700,000 as support for various debt instruments.

The Company entered into a long-term contract with a third party, that expires in 2007, to provide certain data processing services for its acute care and behavioral health facilities.

During the fourth quarter of 1999, the Company made a decision to close and divest one of its specialized women's centers and recorded a $5.3 million charge to reduce the carrying value of the facility to its estimated realizable value of approximately $9 million, based on an independent appraisal. A jury verdict unfavorable to the Company was rendered during the fourth quarter of 2000 with respect to litigation regarding closing of this facility. This unprofitable facility was closed in February, 2001 and the Company has appealed the jury verdict. Accordingly, during the fourth quarter of 2000, the Company recognized a nonrecurring charge of $7.7 million for the amount of the jury verdict and a reserve for remaining legal costs. In addition, various suits and claims arising in the ordinary course of business are pending against the Company. In the opinion of management, the outcome of such claims and litigation will not materially affect the Company's consolidated financial position or results of operations.

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

8) RELATED PARTY TRANSACTIONS

At December 31, 2000, the Company held approximately 8.5% 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 from the Trust was $1.2 million for the year ended December 31, 2000 and $1.1 million in each year ended December 31, 1999 and 1998, and is included in net revenues in the accompanying consolidated statements of income. The carrying value of this investment at December 31, 2000 and 1999 was $9.0 million and $8.3 million, respectively, and is included in other assets in the accompanying consolidated balance sheets. The market value of this investment at December 31, 2000 and 1999 was $15.1 million and $10.5 million, respectively.

As of December 31, 2000, the Company leased six hospital facilities from the Trust with terms expiring in 2001 through 2006. These leases contain up to six 5-year renewal options. During 1998, the Company exercised five-year renewal options on four hospitals leased from the Trust which were scheduled to expire in 1999 through 2001. The leases on these facilities were renewed at the same lease rates and terms as the initial leases. Future minimum lease payments to the Trust are included in Note 6. Total rent expense under these operating leases was $17.1 million in 2000, $16.6 million in 1999, and $16.5 million in 1998. 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. The Company received an advisory fee of $1.3 million in 2000 and $1.2 million in 1999 and 1998 from the Trust for investment and administrative services provided under a contractual agreement which is included in net revenues in the accompanying consolidated statement of income.

During 2000, a subsidiary of the Company exercised its option pursuant to its lease with the Trust to purchase the leased property upon the December 31, 2000 expiration of the initial lease term. The purchase price, which is based on the fair market value of the property as defined in the lease, was approximately $5.5 million. During 2000 and 1999, the Company sold the real property of two medical office buildings to limited liability companies that are majority owned by the Trust for cash proceeds of approximately $10.5 million in 2000 and $13.0 million in 1999. Tenants in the multi-tenant buildings include subsidiaries of the Company as well as unrelated parties.

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. Another member of the Company's Board of Directors is a Managing Director of the underwriting firm used by the Company as one of its principal underwriters for the Convertible Debentures.

9) PENSION PLAN

The Company maintains contributory and non-contributory retirement plans for eligible employees. The Company's contributions to the contributory plan amounted to $4.7 million, $4.2 million and $4.6 million in 2000, 1999 and 1998, respectively. The non-contributory plan is a defined benefit pension plan which covers employees of one of the Company's subsidiaries. The benefits are based on years of service and the employee's highest compensation for any five years of employment. The Company's funding policy is to contribute annually at least the minimum amount that should be funded in accordance with the provisions of ERISA.

The following table shows reconciliations of the defined benefit pension plan for the Company as of December 31, 2000 and 1999:

| | (000s) | |
|---|---|---|
| | 2000 | 1999 |
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | $46,455 | $49,285 |
| Service cost | 921 | 1,041 |
| Interest cost | 3,428 | 3,280 |
| Benefits paid | (1,589) | (1,629) |
| Actuarial loss (gain) | 539 | (5,522) |
| Benefit obligation at end of year | $49,754 | $46,455 |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | $52,967 | $50,702 |
| Actual return on plan assets | 2,122 | 4,096 |
| Benefits paid | (1,589) | (1,629) |
| Administrative expenses | (171) | (202) |
| Fair value of plan assets at end of year | $53,329 | $52,967 |
| Funded status of the plan | $ 3,576 | $ 6,512 |
| Unrecognized actuarial gain | (4,745) | (8,446) |
| Net amount recognized | $(1,169) | $(1,934) |
| Total amounts recognized in the balance sheet consist of: | | |
| Accrued benefit liability | $(1,169) | $(1,934) |
| Weighted average assumptions as of December 31 | | |
| Discount rate | 7.50% | 7.50% |
| Expected long-term rate of return on plan assets | 9.00% | 9.00% |
| Rate of compensation increase | 4.00% | 4.00% |

| | (000s) | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Components of net periodic benefit cost | | | |
| Service cost | $ 921 | $ 1,041 | $ 905 |
| Interest cost | 3,428 | 3,280 | 3,001 |
| Expected return on plan assets | (4,700) | (4,530) | (3,316) |
| Recognized actuarial gain | (413) | -- | -- |
| Net periodic (benefit) cost | $ (764) | $ (209) | $ 590 |

The fair value of plan assets exceeded the benefit obligations of the plan, as of December 31, 2000 and 1999, respectively.

10) SEGMENT REPORTING

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

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

| | (Dollar amounts in thousands) | | | |
|---|---|---|---|---|
| 1999 | Acute Care Services | Behavioral Health Services | Other | Total Consolidated |
| Gross inpatient revenues | $2,766,295 | $414,468 | $ 26,675 | $3,207,438 |
| Gross outpatient revenues | $ 960,338 | $ 97,056 | $108,502 | $1,165,896 |
| Total net revenues | $1,691,329 | $270,638 | $ 80,413 | $2,042,380 |
| EBITDAR(a) | $ 310,445 | $ 44,866 | $(36,743) | $ 318,568 |
| Total assets | $1,233,652 | $154,792 | $109,529 | $1,497,973 |
| Licensed beds | 4,806 | 1,976 | -- | 6,782 |
| Available beds | 4,099 | 1,961 | -- | 6,060 |
| Patient days | 963,842 | 444,632 | -- | 1,408,474 |
| Admissions | 204,538 | 37,810 | -- | 242,348 |
| Average length of stay | 4.7 | 11.8 | -- | 5.8 |

| 1998 | Acute Care Services | Behavioral Health Services | Other | Total Consolidated |
|---|---|---|---|---|
| | (Dollar amounts in thousands) | | | |
| Gross inipatient revenues...... | $2,440,526 | $341,592 | $ 21,774 | $2,803,892 |
| Gross outpatient revenues...... | $ 846,698 | $ 91,465 | $ 80,621 | $1,018,784 |
| Total net revenues............ | $1,576,107 | $233,010 | $ 65,370 | $1,874,487 |
| EBITDAR(a).................... | $ 316,263 | $ 38,556 | $(43,649) | $ 311,170 |
| Total assets.................. | $1,217,363 | $127,500 | $103,232 | $1,448,095 |
| Licensed beds................. | 4,696 | 1,782 | -- | 6,478 |
| Available beds................ | 3,985 | 1,767 | -- | 5,752 |
| Patient days.................. | 884,966 | 365,935 | -- | 1,250,901 |
| Admissions.................... | 187,833 | 32,400 | -- | 220,233 |
| Average length of stay......... | 4.7 | 11.3 | -- | 5.7 |

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(a) EBITDAR--Earnings before interest, income taxes, depreciation, amortization, lease & rental, minority interest expense and nonrecurring charges.

11) QUARTERLY RESULTS (unaudited)

The following tables summarize the Company's quarterly financial data for the two years ended December 31, 2000.

| 2000 | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| | (000s, except per share amounts) | | | |
| Net revenues.......................... | $541,004 | $524,828 | $561,790 | $614,822 |
| Income before income taxes............. | $ 44,248 | $ 36,423 | $ 35,172 | $ 30,265 |
| Net income............................ | $ 28,629 | $ 23,309 | $ 22,335 | $ 19,089 |
| Earnings per share--basic.............. | $ 0.94 | $ 0.77 | $ 0.75 | $ 0.64 |
| Earnings per share--diluted............ | $ 0.92 | $ 0.76 | $ 0.72 | $ 0.62 |

Net revenues in 2000 include $28.9 million of additional revenues received from special Medicaid reimbursement programs in Texas and South Carolina. Of this amount, $7.7 million was recorded in each of the first and second quarters, $7.6 million in the third quarter and $5.9 million in the fourth quarter. These amounts were recorded in periods that the Company met all of the requirements to be entitled to these reimbursements. The Company received notification that beginning in the third quarter of 2000, reimbursements pursuant to the terms of these programs were being reduced by approximately $5.6 million annually, on a prospective basis. The Company has appealed the reductions related to the Texas program, however, the amounts included in the results of operations during the third and fourth quarters of 2000 were recorded as if the Company is unsuccessful in its appeal. Failure to renew these programs, which are scheduled to terminate in the third quarter of 2001, or further reductions in reimbursements, could have a material adverse effect on the Company's future results of operations. During the fourth quarter of 2000, the Company recognized a nonrecurring charge of $7.7 million ($4.9 million after tax) or $.15 per share (diluted) to reflect an unfavorable jury verdict and a reserve for legal costs incurred in connection with the closure of an unprofitable women's health center.

| 1999 | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| | (000s, except per share amounts) | | | |
| Net revenues.......................... | $520,095 | $513,067 | $489,828 | $519,390 |
| Income before income taxes............. | $ 47,695 | $ 36,879 | $ 16,681 | $ 21,528 |
| Net income............................ | $ 30,022 | $ 23,030 | $ 10,794 | $ 13,929 |
| Earnings per share--basic.............. | $ 0.94 | $ 0.73 | $ 0.34 | $ 0.46 |
| Earnings per share--diluted............ | $ 0.92 | $ 0.71 | $ 0.34 | $ 0.45 |

Net revenues in 1999 include $37.0 million of additional revenues received from special Medicaid reimbursement programs. Of this amount, $10.1 million was recorded in the first quarter, $10.4 million in the second quarter, $8.9 million in the third quarter and $7.6 million in the fourth quarter. Included in net revenues during the second quarter was $3.2 million resulting from an adjustment to contractual allowances recorded in a prior year. During the fourth quarter, the Company recorded a $5.3 million ($3.3 million after minority interest and after tax) or $.10 per share (diluted) nonrecurring charge to reduce the carrying value of one of its specialized women's health centers. Also included in the fourth quarter results is approximately $2.0 million or $.04 per share (diluted) resulting from the reversal of bonus expense accrued in prior quarters during 1999.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

| Description | Balance at Beginning of Period | Additions: Charges to Costs and Expenses | Additions: Acquisitions of Businesses | Write-Off of Uncollectible Accounts | Balance at End of Period |
|---|---|---|---|---|---|
| | (000s) | | | | |
| ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE: | | | | | |
| Year ended December 21, 2000............. | $55,686 | $192,625 | $6,651 | $(189,604) | $65,358 |
| Year ended December 31, 1999............. | $60,480 | $166,139 | $8,956 | $(179,889) | $55,686 |
| Year ended December 31, 1998............. | $46,615 | $139,526 | $7,377 | $(133,038) | $60,480 |

[LETTERHEAD OF UNIVERSAL HEALTH]

January 8, 2001

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 6, 2000, 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, 2001, 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
President and Secretary

cc: Warren J. Nimetz, Esquire
Charles Boyle

Agreed to and Accepted:

UHS OF DELAWARE, INC.

By: /s/ Alan B. Miller
---------------------
Alan B. Miller, President

EXHIBIT 10.33

# UNIVERSAL HEALTH SERVICES, INC.
# AMENDED AND RESTATED

# 1992 STOCK OPTION PLAN

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 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 5,500,000 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 the Board of Directors of the Company (the "Board"). Subject to the provisions of the Plan, the Board, 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. The Board may act by the vote of a majority of it members present at a meeting at which there is a quorum or by unanimous written consent. The decision of the Board as to any disputed question, including questions of construction, interpretation and administration, will be final and conclusive on all persons. The Board 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. Notwithstanding the foregoing, the Board shall have the authority to appoint a committee (the "Committee") of the Board whose members shall satisfy the requirements of Section 162(m) of the Internal Revenue Code of 1986 (the "Code"), and the requirements of Rule 16b-3(b)(3)(i) under the Securities Exchange Act of 1934, as amended (or any successor laws or regulations), to grant options to executive officers of the Company and, all references to "the Board" hereunder with respect to the grant of such options shall be deemed to refer to such Committee.

4. Eligibility. Options may be granted under the Plan to present or future employees of the Company or a subsidiary of the Company (a "Subsidiary") within the meaning of Section 424(f) of the Code, consultants to the Company or a Subsidiary who are not employees, and to directors of the Company or a Subsidiary whether or not they are employees of or consultants to the Company and/or a Subsidiary. Subject to the provisions of the Plan, the Board 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, which in the case of grants by the Committee shall not be less than fair market value of the Common Stock on the date of grant, 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 Board. 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 Board deems appropriate.

(a) Option Period. The period during which an option may be exercised will be fixed by the Board 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 Company to enable it 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 Board 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. The Board may permit the Company to lend money to employees for purposes of exercising options and paying any income tax due upon exercise. The Board may, in its sole discretion, forgive any amounts due under the loans made hereunder under such conditions as it deems appropriate.

(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. Options granted under the Plan may be assigned or transferred to members of the immediate family of optionee or trusts for the benefit of immediate family members, unless otherwise prohibited by the Option Agreement, by will or by the applicable laws of descent and distribution or dissemination: 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 Board 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 Board 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 Board 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 Board in its sole discretion shall determine, at the time of grant or otherwise, 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 at any time. 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. Stockholder Approval; Term of the Plan. The Plan was adopted by the Board on July 15, 1992 and amended on January 17, 2001, subject to the approval of the Amendment by 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).

| Subsidiary | Jurisdiction of Incorporation |
|---|---|
| ASC of Brownsville, Inc. | Delaware |
| 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 Reno, Inc. | Reno |
| ASC of Springfield, Inc. | Missouri |
| ASC of St. George, Inc. | Utah |
| Aiken Regional Medical Centers, Inc. | South Carolina |
| Ambulatory Surgery Center of Brownsville, L.P. | Delaware |
| Arbour Elder Services, Inc. | Massachusetts |
| Arkansas Surgery Center of Fayetteville, L.P. | Arkansas |
| Auburn Regional Medical Center, Inc. | Washington |
| Bluegrass Regional Cancer Center, L.L.P. | Kentucky |
| Bowling Green Radiation Therapy II, L.L.P. | Kentucky |
| Capitol Radiation Therapy, L.L.P. | Kentucky |
| Chalmette Medical Center, Inc. | Louisiana |
| Choate Health Management, Inc. | Massachusetts |
| Community Behavioral Health, L.L.C. | Delaware |

| Subsidiary | Jurisdiction of Incorporation |
|---|---|
| Comprehensive Occupational and Clinical Health, Inc. | Delaware |
| Danville Radiation Therapy, L.L.P. | Kentucky |
| Del Amo Hospital, Inc. | California |
| District Hospital Partners, L.P. | District of Columbia |
| Doctors' Hospital of Shreveport, Inc. | Louisiana |
| Eye West Laser Vision, L.P. | Delaware |
| Forest View Psychiatric Hospital, Inc. | Michigan |
| Fort Duncan Medical Center, Inc. | Delaware |
| Fort Duncan Medical Center, L.P. | Delaware |
| Glen Oaks Hospital, Inc. | Texas |
| HRI Clinics, Inc. | Massachusetts |
| HRI Hospital, Inc. | Massachusetts |
| Health Care Finance & Construction Corp. | Delaware |
| Hope Square Surgical Center, L.P. | Delaware |
| Inland Valley Regional Medical Center, Inc. | California |
| Internal Medicine Associates of Doctors' Hospital, Inc. | Louisiana |
| La Amistad Residential Treatment Center, Inc. | Florida |
| Laredo Holdings, Inc. | Delaware |
| Laredo Regional Medical Center, L.P. | Delaware |
| Laredo Regional, Inc. | Delaware |
| Madison Radiation Oncology Associates, L.L.C. | Indiana |
| Manatee Memorial Hospital, L.P. | Delaware |

| Subsidiary | Jurisdiction of Incorporation |
|---|---|
| McAllen Hospitals, L.P. | Delaware |
| McAllen Medical Center Physicians Group, Inc. | Texas |
| Meridell Achievement Center, Inc. | Texas |
| Merion Building Management, Inc. | Delaware |
| Nevada Radiation Oncology Center-West, L.L.C. | Nevada |
| New Albany Outpatient Surgery, L.P. | Delaware |
| Northern Nevada Ambulatory Surgical Center, L.L.C. | Nevada |
| Northern Nevada Medical Center, L.P. | Delaware |
| Northwest Texas Healthcare System, Inc. | Texas |
| Northwest Texas Surgical Hospital, L.L.C. | Texas |
| Oasis Health Systems, L.L.C. | Nevada |
| Plaza Surgery Center, L.P. | Nevada |
| Professional Probation Services, Inc. | Georgia |
| Professional Surgery Corporation of Arkansas | Arkansas |
| Pueblo Medical Center, Inc. | Nevada |
| RCW of Edmond, Inc. | Oklahoma |
| Radiation Therapy Associates of California, L.L.C. | California |
| Relational Therapy Clinic, Inc. | Louisiana |
| Renaissance Women's Center of Austin, L.L.C. | Texas |
| Renaissance Women's Center of Edmond, L.L.C. | Oklahoma |

| Subsidiary | Jurisdiction of Incorporation |
|---|---|
| Ridge Outpatient Counseling, L.L.C. | Kentucky |
| River Crest Hospital, Inc. | Texas |
| River Oaks, Inc. | Louisiana |
| River Parishes Internal Medicine, Inc. | Louisiana |
| SOSC, Inc. | New Hampshire |
| South Texas Heart, Inc. | Delaware |
| South Texas Holdings, Inc. | Delaware |
| Southern Indiana Radiation Oncology Associates, L.L.C. | Indiana |
| Sparks Family Hospital, Inc. | Nevada |
| St. George Surgical Center, L.P. | Delaware |
| St. Louis Behavioral Medicine Institute, Inc. | Missouri |
| Summerlin Hospital Medical Center, L.L.C. | Delaware |
| Summerlin Hospital Medical Center, L.P. | Delaware |
| Surgery Center of Littleton, L.P. | Delaware |
| Surgery Center of Midwest City, L.P. | Delaware |
| Surgery Center of Ponca City, L.P. | Delaware |
| Surgery Center of Springfield, L.P. | Delaware |
| Surgery Center of Waltham, Limited Partnership | Massachusetts |
| The Alliance for Creative Development, Inc. | Pennsylvania |
| The Arbour, Inc. | Massachusetts |
| The Bridgeway, Inc. | Arkansas |
| The Pavilion Foundation | Illinois |
| Tonopah Health Services, Inc. | Nevada |

| Subsidiary | Jurisdiction of Incorporation |
|---|---|
| Trenton Street Corporation | Texas |
| Turning Point Care Center, Inc. | Georgia |
| Two Rivers Psychiatric Hospital, Inc. | Delaware |
| UHS Advisory, Inc. | Delaware |
| UHS Broadlane Holdings L.P. | Delaware |
| UHS Holding Company, Inc. | Nevada |
| UHS Las Vegas Properties, Inc. | Nevada |
| UHS Managed Care Operations, L.L.C. | Pennsylvania |
| UHS Midwest Center for Youth and Families, Inc. | Indiana |
| UHS Receivables Corp. | Delaware |
| UHS Recovery Foundation, Inc. | Pennsylvania |
| UHS of Anchor, L.P. | Delaware |
| UHS of Belmont, Inc. | Delaware |
| UHS of Bradenton, Inc. | Florida |
| UHS of D.C., Inc. | Delaware |
| UHS of Delaware, Inc. | Delaware |
| UHS of Eagle Pass, Inc. | Delaware |
| UHS of Fairmount, Inc. | Delaware |
| UHS of Fayetteville, Inc. | Arkansas |
| UHS of Florida, Inc. | Florida |
| UHS of Fuller, Inc. | Massachusetts |
| UHS of Georgia Holdings, Inc. | Delaware |

| Subsidiary | Jurisdiction of Incorporation |
|---|---|
| UHS of Georgia, Inc. | Delaware |
| UHS of Greenville, Inc. | Delaware |
| UHS of Hampton Learning Center, Inc. | New Jersey |
| UHS of Hampton, Inc. | New Jersey |
| UHS of Hartgrove, Inc. | Illinois |
| UHS of Lakeside, Inc. | Delaware |
| UHS of Laurel Heights, L.P. | Delaware |
| UHS of Manatee, Inc. | Florida |
| UHS of New Orleans, Inc. | Louisiana |
| UHS of Odessa, Inc. | Texas |
| UHS of Oklahoma, Inc. | Oklahoma |
| UHS of Parkwood, Inc. | Delaware |
| UHS of Peachford, L.P. | Delaware |
| UHS of Pennsylvania, Inc. | Pennsylvania |
| UHS of Provo Canyon, Inc. | Delaware |
| UHS of Puerto Rico, Inc. | Delaware |
| UHS of Ridge, Inc. | Delaware |
| UHS of River Parishes, Inc. | Louisiana |
| UHS of Rockford, Inc. | Delaware |
| UHS of Talbot, L.P. | Delaware |
| UHS of Timberlawn, Inc. | Texas |
| UHS of Waltham, Inc. | Massachusetts |
| UHS of Westwood Pembroke, Inc. | Massachusetts |

| Subsidiary | Jurisdiction of Incorporation |
|---|---|
| UHSMS, Inc. | Delaware |
| UHSR Corporation | Delaware |
| Universal Community Behavioral Health, Inc. | Pennsylvania |
| Universal Health Network, Inc. | Nevada |
| Universal Health Pennsylvania Properties, Inc. | Pennsylvania |
| Universal Health Recovery Centers, Inc. | Pennsylvania |
| Universal Health Services of Cedar Hill, Inc. | Texas |
| Universal Health Services of Concord, Inc. | California |
| Universal Health Services of Rancho Springs, Inc. | California |
| Universal Probation Services, Inc. | Georgia |
| Universal Treatment Centers, Inc. | Delaware |
| Valley Health System, L.L.C. | Delaware |
| Valley Hospital Medical Center, Inc. | Nevada |
| Valley Surgery Center, L.P. | Delaware |
| Victoria Regional Medical Center, Inc. | Texas |
| Wellington Physician Alliances, Inc. | Florida |
| Wellington Regional Medical Center Incorporated | Florida |

Exhibit 24

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statements on Forms S-8 (File No. 333-46384), (File No. 33-43276), (File No. 33-49426), (File No. 33-49428), (File No. 33-51671), (File No. 33-56575), (File No. 33-63291), and (File No. 333-13453), and Form S-3 (File No. 333-46098) and (File No. 333-85781).

Arthur Andersen LLP

Philadelphia, PA
March 28, 2001