FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended June 30, 2002

OR

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

For the transition period from ...... to ......
Commission file number 1-10765

UNIVERSAL HEALTH SERVICES, INC.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive office) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ---

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common shares outstanding, as of July 31, 2002:

Class A	3,848,886
Class B	55,594,467
Class C	387,848
Class D	36,882

UNIVERSAL HEALTH SERVICES, INC.

I N D E X

PART I. FINANCIAL INFORMATION

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net revenues	$ 805,945	$ 718,596	$ 1,610,316	$ 1,395,545
Operating charges:				
Salaries, wages and benefits	321,595	282,278	641,302	550,560
Other operating expenses	198,296	169,876	390,192	320,782
Supplies expense	103,857	92,979	207,365	182,347
Provision for doubtful accounts	52,845	62,678	110,739	117,905
Depreciation and amortization	30,900	32,248	60,308	62,043
Lease and rental expense	15,290	13,470	30,480	26,110
Interest expense, net	8,153	10,506	17,117	18,962
	730,936	664,035	1,457,503	1,278,709
Income before minority interests, effect of foreign exchange and derivative transactions and income taxes	75,009	54,561	152,813	116,836
Minority interests in earnings of consolidated entities	4,688	3,699	10,561	7,624
Losses (gains) on foreign exchange and derivative transactions	249	(26)	15	1,401
Income before income taxes	70,072	50,888	142,237	107,811
Provision for income taxes	25,725	18,498	52,217	39,250
Net income	$ 44,347	$ 32,390	$ 90,020	$ 68,561
Earnings per common share - basic	$ 0.74	$ 0.54	$ 1.50	$ 1.15
Earnings per common share - diluted	$ 0.69	$ 0.51	$ 1.40	$ 1.08
Weighted average number of common shares - basic	59,934	59,918	59,898	59,873
Weighted average number of common share equivalents	7,320	7,306	7,253	7,313
Weighted average number of common shares and equivalents - diluted	67,254	67,224	67,151	67,186

See accompanying notes to these condensed consolidated financial statements.

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

	June 30, 2002	December 31, 2001
Assets		
Current assets:		
Cash and cash equivalents	$ 14,820	$ 22,848
Accounts receivable, net	464,987	418,083
Supplies	59,280	54,764
Deferred income taxes	34,944	25,227
Other current assets	34,429	27,340
Total current assets	608,460	548,262
Property and equipment	1,774,850	1,625,807
Less: accumulated depreciation	(647,165)	(594,602)
	1,127,685	1,031,205
Other assets:		
Goodwill	391,929	372,627
Deferred charges	17,672	16,533
Other	63,144	145,957
	472,745	535,117
	$ 2,208,890	$ 2,114,584
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	$ 2,641	$ 2,436
Accounts payable and accrued liabilities	344,124	319,395
Federal and state taxes	-----	885
Total current liabilities	346,765	322,716
Other noncurrent liabilities	119,366	110,385
Minority interest	127,862	125,914
Long-term debt, net of current maturities	688,018	718,830
Deferred income taxes	27,471	28,839
Common stockholders' equity:		
Class A Common Stock, 3,848,886 shares outstanding in 2002, 3,848,886 in 2001	38	38
Class B Common Stock, 55,689,608 shares outstanding in 2002, 55,603,686 in 2001	557	556
Class C Common Stock, 387,848 shares outstanding in 2002, 387,848 in 2001	4	4
Class D Common Stock, 37,222 shares outstanding in 2002, 39,109 in 2001	-----	-----
Capital in excess of par, net of deferred compensation of $0 in 2002 and $203 in 2001	139,442	137,400
Retained earnings	766,084	676,064
Accumulated other comprehensive income (loss)	(6,717)	(6,162)
	899,408	807,900
	$ 2,208,890	$ 2,114,584

See accompanying notes to these condensed consolidated financial statements.

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

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
Cash Flows from Operating Activities:		
Net income	$ 90,020	$ 68,561
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	60,308	62,043
Accretion of discount on convertible debentures	5,417	5,125
Losses on foreign exchange and derivative transactions	15	1,401
Changes in assets & liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	(23,182)	10,558
Accrued interest	786	(55)
Accrued and deferred income taxes	(9,310)	3,658
Other working capital accounts	819	10,021
Other assets and deferred charges	(4,774)	2,805
Increase in working capital at acquired facilities	------	(13,201)
Other	2,089	(4,662)
Minority interest in earnings of consolidated entities, net of distributions	1,948	337
Accrued insurance expense, net of commercial premiums paid	27,852	12,298
Payments made in settlement of self-insurance claims	(17,922)	(6,088)
Net cash provided by operating activities	134,066	152,801
Cash Flows from Investing Activities:		
Property and equipment additions, net	(97,152)	(69,408)
Acquisition of businesses	------	(179,240)
Proceeds received from divestitures, net	1,750	------
Net cash used in investing activities	(95,402)	(248,648)
Cash Flows from Financing Activities:		
Additional borrowings, net of financing costs	39,311	133,534
Reduction of long-term debt	(84,255)	(25,000)
Issuance of common stock	1,320	1,293
Repurchase of common shares	(3,068)	------
Net cash (used in) provided by fnancing activities	(46,692)	109,827
(Decrease) increase in cash and cash equivalents	(8,028)	13,980
Cash and cash equivalents, Beginning of Period	22,848	10,545
Cash and cash equivalents, End of Period	$ 14,820	$ 24,525
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 10,914	$ 13,892
Income taxes paid, net of refunds	$ 60,848	$ 35,592

See accompanying notes to these condensed consolidated financial statements.

(1) General

The consolidated financial statements include the accounts of Universal Health Services, Inc. (the "Company"), its majority-owned subsidiaries and partnerships controlled by the Company or its subsidiaries as managing general partner. The consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all normal and recurring adjustments which, in the opinion of the Company, are necessary to fairly present results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the accompanying disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the financial statements, significant accounting policies and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001. Certain prior year amounts have been reclassified to conform with current year financial statement presentation.

(2) Related Party Transactions

At June 30, 2002, the Company held approximately 6.6% of the outstanding shares of Universal Health Realty Income Trust (the "Trust"). The Company serves as Advisor to the Trust under an annually renewable advisory agreement pursuant to the terms of which the Company conducts the Trust's day to day affairs, provides administrative services and presents investment opportunities. In connection with this advisory agreement, the Company earned an advisory fee from the Trust of approximately $300,000 in each of the three month periods ended June 30, 2002 and 2001 and $700,000 in each of the six month periods ended June 30, 2002 and 2001 which are included in net revenues in the accompanying consolidated statements of income. In addition, certain officers and directors of the Company are also officers and/or directors of the Trust. Management believes that it has the ability to exercise significant influence over the Trust and therefore the Company accounts for its investment in the Trust using the equity method of accounting. The Company's pre-tax share of income from the Trust was $400,000 and $300,000 during the three month periods ended June 30, 2002 and 2001, respectively, and $700,000 and $600,000 during the six month periods ended June 30, 2002 and 2001, respectively, and is included in net revenues in the accompanying consolidated statements of income. As of June 30, 2002, the Company leased six hospital facilities from the Trust with terms expiring in 2003 through 2006. These leases contain up to six 5-year renewal options. Total rent expense under these operating leases was $4.3 and $4.1 million during the three month periods ended June 30, 2002 and 2001, respectively, and $8.5 million and $8.2 million during the six month periods ended June 30, 2002 and 2001, respectively.

(3) Other Noncurrent and Minority Interest Liabilities

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

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

(4) Commitment and Contingencies

Under certain agreements, the Company has committed or guaranteed an aggregate of $53 million related principally to the Company's self-insurance programs and as support for various debt instruments and loan guarantees, including a $29 million surety bond related to the Company's 1997 acquisition of an 80% ownership interest in The George Washington University Hospital.

For the period from January 1, 1998 through December 31, 2001, most of the Company's subsidiaries were covered under commercial insurance policies with PHICO, a Pennsylvania based insurance company. The policies provided for a self-insured retention limit for professional and general liability claims for the Company's subsidiaries up to $1 million per occurrence, with an average annual aggregate for covered subsidiaries of $7 million through 2001. These subsidiaries maintained excess coverage up to $100 million with other major insurance carriers.

Early in the first quarter of 2002, PHICO was placed in liquidation by the Pennsylvania Insurance Commissioner and as a result, the Company recorded a pre-tax charge to earnings of $40 million during the fourth quarter of 2001 to reserve for malpractice expenses that may result from PHICO's liquidation. PHICO continues to have substantial liability to pay claims on behalf of the Company and although those claims could become the Company's liability, the Company may be entitled to receive reimbursement from state insurance guaranty funds and/or PHICO's estate for a portion of certain claims ultimately paid by the Company. The Company expects that the cash payments related to these claims will be made over the next eight years as the cases are settled or adjudicated. In estimating the $40 million pre-tax charge during the fourth quarter of 2001, the Company evaluated all known factors at that time. As of June 30, 2002, these factors have not substantially changed. However, there can be no assurance that the Company's ultimate liability will not be materially different than the estimated charge recorded. Additionally, if the ultimate PHICO liability assumed by the Company is substantially greater than the established reserve, there can be no assurance that the additional amount required will not have a material adverse effect on the Company's future results of operations.

(5) Financial Instruments

Fair Value Hedges: The Company has two floating rate swaps having a combined notional principal amount of $60 million in which the Company receives a fixed rate of 6.75% and pays a floating rate equal to 6 month LIBOR plus a spread. The term of these swaps is ten years and they are both scheduled to expire on November 15, 2011. During the three months ended June 30, 2002, the Company recorded a decrease of $2.9 million in other non-current liabilities to recognize the fair value of these swaps and a $2.9 million increase in long-term debt to recognize the difference between the carrying value and fair value of the related hedged liability. During the six months ended June 30, 2002, the Company recorded a decrease of $2.4 million in other non-current liabilities to recognize the fair value of these swaps and a $2.4 million increase in long-term debt to recognize the difference between the carrying value and fair value of the related hedged liability. During the three and six month periods ended June 30, 2001, the Company recorded increases of $700,000 and $2.1 million, respectively, in other assets and long-term debt to recognize the increased value of the fair-value hedging instruments.

Cash Flow Hedges: During the three months ended June 30, 2002 and 2001, the Company recorded in other comprehensive income ("OCI"), a pre-tax loss of $2.8 million ($1.8 million after-tax) and pre-tax income of $2.1 million ($1.4 million after-tax), respectively, to recognize the change in fair value of all derivatives that are designated as cash flow hedging instruments. During the six months ended June 30, 2002 and 2001, the Company recorded in other comprehensive income ("OCI"), pre-tax losses of $1.2 million ($700,000 after-tax) and $3.1 million ($1.9 million after-tax), respectively, to recognize the change in fair value of all derivatives that are designated as cash flow hedging instruments. The income or losses are reclassified into earnings as the underlying hedged item affects earnings, such as when the forecasted interest payment occurs. Assuming market rates remain unchanged from June 30, 2002, it is expected that $5.6 million of pre-tax net losses in accumulated OCI will be reclassified into earnings within the next twelve months. The Company also recorded after-tax income of $19,000 and $28,000 during the three and six months ended June 30, 2002, respectively, and approximately $100,000 during the six months ended June 30, 2001 (the majority of which was recorded during the quarter ended March 31, 2001), to recognize the ineffective portion of the cash flow hedging instruments. As of June 30, 2002, the maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions is through August, 2005.

As of June 30, 2002, the Company has one fixed rate swap with a notional principal amount of $125 million which expires in August, 2005. The Company pays a fixed rate of 6.76% and receives a floating rate equal to three month LIBOR. As of June 30, 2002, the floating rate of the $125 million of interest rate swaps was 1.90%. Also as of June 30, 2002, a majority-owned subsidiary of the Company has a fixed rate swap denominated in Euros with an initial notional principal amount of Euro 45.8 million which expires on June 30, 2005.

(6) New Accounting Standards

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations to be accounted for using the purchase method and establishes criteria for the recognition of intangible assets apart from goodwill. SFAS No. 141 applies to all business combinations initiated after June 30, 2001. SFAS No. 142 required the Company to cease amortizing goodwill that existed as of June 30, 2001. Recorded goodwill balances will be reviewed for impairment at least annually and written down if the carrying value of the goodwill balance exceeds its fair value.

The Company adopted SFAS No. 142 on January 1, 2002. As required by SFAS No. 142, the Company performed an impairment test on goodwill as of January 1, 2002, which indicated no impairment of goodwill. As of January 1, 2002, the Company is no longer amortizing goodwill. The Company has selected September 1st as its annual assessment date for impairment testing. Goodwill amortization in 2001 was approximately $24 million on a pre-tax and approximately $15.6 million or $0.24 pre diluted share on an after-tax basis.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(In thousands, except per share data			
Reported net income	$44,347	$32,390	$90,020	$68,561
Add back: goodwill amortization after-tax	--	3,932	--	7,777
Adjusted net income	$44,347	$36,322	$90,020	$76,338
Basic earnings per share				
Reported net income	$ 0.74	$ 0.54	$ 1.50	$ 1.15
Goodwill amortization	--	0.06	--	0.12
Adjusted net income	$ 0.74	$ 0.60	$ 1.50	$ 1.27
Diluted earnings per share:				
Reported net income	$ 0.69	$ 0.51	$ 1.40	$ 1.08
Goodwill amortization	--	0.06	--	0.12
Adjusted net income	$ 0.69	$ 0.57	$ 1.40	$ 1.20

Changes in the carrying amount of goodwill for the six-month period ended June 30, 2002 were as follows (in thousands):

	Acute Care Services	Behavioral Health Services	Other	Total Consolidated
Balance, January 1, 2002	$277,692	$54,122	$40,813	$372,627
Goodwill acquired during the period	17,197	328	1,777	19,302
Goodwill written off related to sale of business unit	--	--	--	--
Balance, June 30 ,2002	$294,889	$54,450	$42,590	$391,929

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

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The Statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". This Statement also supersedes Accounting Principles Board Opinion (APB) No. 30 provisions related to accounting and reporting for the disposal of a segment of a business. This Statement establishes a single accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale. The Statement retains most of the requirements in SFAS No. 121 related to the recognition of impairment of long-lived assets to be held and used. The Company adopted the provisions of this Statement as of January 1, 2002. The adoption of this Statement did not have a material effect on the Company's financial statements.

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

(7) Segment Reporting

The Company's reportable operating segments consist of acute care services and behavioral health care services. The "Other" segment column below includes centralized services including information services, purchasing, reimbursement, accounting, taxation, legal, advertising, design and construction, and patient accounting as well as the operating results for the Company's other operating entities including outpatient surgery and radiation centers and an 80% ownership interest in an operating company that owns nine hospitals located in France. The financial and statistical data presented for the nine hospitals located in France is for the three and six month periods ended May 31st as these facilities are included in the Company's annual statements on the basis of the year ended November 30th. The chief operating decision making group for the Company's acute care services and behavioral health care services located in the U.S. and Puerto Rico is comprised of the Company's President and Chief Executive Officer, and the lead executives of each of the Company's two primary operating segments. The lead executive for each operating segment also manages the profitability of each respective segment's various hospitals. The acute care and behavioral health services' operating segments are managed separately because each operating segment represents a business unit that offers different types of healthcare services. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies included in the Company's Annual Report of Form 10-K for the year ended December 31, 2001, except for the adoption of SFAS Nos. 142 and 144, effective January 1, 2002. There was no impact on the segment data presented as a result of the adoption of these pronouncements.

	Three Months Ended June 30, 2002			
	Acute Care Services	Behavioral Health Services	Other	Total Consolidated
	(Dollar amounts in thousands)			
Gross inpatient revenues	$1,242,178	$248,255	$ 23,819	$1,514,252
Gross outpatient revenues	$ 456,875	$ 39,450	$ 39,655	$ 535,980
Total net revenues	$ 620,388	$143,423	$ 42,134	$ 805,945
Operating income (a)	$ 107,925	$ 29,942	($8,515)	$ 129,352
Total assets as of 6/30/02	$1,620,272	$276,095	$ 312,523	$2,208,890
Licensed beds	5,846	3,749	1,083	10,678
Available beds	4,777	3,605	1,083	9,465
Patient days	300,761	255,016	82,324	638,101
Admissions	65,605	21,176	16,502	103,283
Average length of stay	4.6	12.0	5.0	6.2

	Three Months Ended June 30, 2001			
	Acute Care Services	Behavioral Health Services	Other	Total Consolidated
	(Dollar amounts in thousands)			
Gross inpatient revenues	$ 993,179	$232,652	$ 14,049	$1,239,880
Gross outpatient revenues	$ 363,231	$ 38,111	$ 38,128	$ 439,470
Total net revenues	$ 547,208	$140,153	$ 31,235	$ 718,596
Operating income (a)	$ 95,587	$ 28,497	($ 13,299)	$ 110,785
Total assets as of 6/30/01	$1,448,446	$290,705	$ 241,468	$1,980,619
Licensed beds	5,475	3,735	663	9,873
Available beds	4,624	3,591	663	8,878
Patient days	279,070	244,080	52,206	575,356
Admissions	59,001	19,760	12,328	91,089
Average length of stay	4.7	12.4	4.2	6.3

	Six Months Ended June 30, 2002			
	Acute Care Services	Behavioral Health Services	Other	Total Consolidated
	(Dollar amounts in thousands)			
Gross inpatient revenues	$ 2,528,504	$ 490,634	$ 45,339	$ 3,064,477
Gross outpatient revenues	$ 881,418	$ 77,750	$ 77,180	$ 1,036,348
Total net revenues	$ 1,244,316	$ 285,544	$ 80,456	$ 1,610,316
Operating income (a)	$ 215,823	$ 58,409	($13,514)	$ 260,718
Total assets as of 6/30/02	$ 1,620,272	$ 276,095	$ 312,523	$ 2,208,890
Licensed beds	5,846	3,749	1,083	10,678
Available beds	4,777	3,605	1,083	9,465
Patient days	624,065	503,984	165,125	1,293,174
Admissions	132,465	42,427	34,320	209,212
Average length of stay	4.7	11.9	4.8	6.2

	Six Months Ended June 30, 2001			
	Acute Care Services	Behavioral Health Services	Other	Total Consolidated
	(Dollar amounts in thousands)			
Gross inpatient revenues	$ 2,011,533	$ 460,515	$ 17,242	$ 2,489,290
Gross outpatient revenues	$ 705,257	$ 74,135	$ 68,674	$ 848,066
Total net revenues	$ 1,075,785	$ 272,731	$ 47,029	$ 1,395,545
Operating income (a)	$ 199,077	$ 54,682	($29,808)	$ 223,951
Total assets as of 6/30/01	$ 1,448,446	$ 290,705	$ 241,468	$ 1,980,619
Licensed beds	5,436	3,717	332	9,485
Available beds	4,585	3,573	332	8,490
Patient days	566,367	477,095	52,206	1,095,668
Admissions	119,116	39,508	12,328	170,952
Average length of stay	4.8	12.1	4.2	6.4

(a) Operating income is defined as net revenues less salaries, wages & benefits, other operating expenses, supplies expense and provision for doubtful accounts.

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

	Three Months Ended June 30, (amounts in thousands)	
	2002	2001
Consolidated operating income	$129,352	$110,785
Less: Depreciation & amortization	30,900	32,248

Lease & rental expense	15,290	13,470
Interest expense, net	8,153	10,506
Minority interests in earnings of consolidated entities	4,688	3,699
Losses (gains) on foreign exchange and derivative trans.	249	(26)
Consolidated income before income taxes	$70,072	$50,888

	Six Months Ended June 30, (amounts in thousands)	
	2002	2001
Consolidated operating income	$260,718	$223,951
Less: Depreciation & amortization	60,308	62,043
Lease & rental expense	30,480	26,110
Interest expense, net	17,117	18,962
Minority interests in earnings of consolidated entities	10,561	7,624
(Gains) losses on foreign exchange and derivative trans.	15	1,401
Consolidated income before income taxes	$142,237	$107,811

(8) Earnings Per Share Data ("EPS")

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. In April, 2001, the Company declared a two-for-one stock split in the form of a 100% stock dividend which was paid on June 1, 2001. All references to share quantities and earnings per share for all periods presented have been adjusted to reflect the two-for-one stock split.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(In thousands, except per share data)			
Basic:				
Net income	$44,347	$32,390	$90,020	$68,561
Average shares outstanding	59,934	59,918	59,898	59,873
Basic EPS	$ 0.74	$ 0.54	$ 1.50	$ 1.15
Diluted:				
Net income	$44,347	$32,390	$90,020	$68,561
Add discounted convertible debenture interest, net of income tax effect	2,091	2,049	4,183	4,019

Totals	$ 46,438	$ 34,439	$ 94,203	$ 72,580
Average shares outstanding	59,934	59,918	59,898	59,873
Net effect of dilutive stock options and grants based on the treasury stock method	742	728	675	735
Assumed conversion of discounted convertible debentures	6,578	6,578	6,578	6,578
Totals	67,254	67,224	67,151	67,186
Diluted EPS	$ 0.69	$ 0.51	$ 1.40	$ 1.08

(9) Comprehensive Income (Loss)

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

	Three Months Ended June 30.		Six Months Ended June 30,	
	2002	2001	2002	2001
Net income	$44,347	$32,390	$90,020	$68,561
Other comprehensive income (loss):				
Foreign currency translation adjustments	234	1,907	181	782
Cumulative effect of change in accounting principle(SFAS No. 133) on other comprehensive income (net of income tax effect)	-----	-----	----	(4,779)
Unrealized derivative gains (losses) on cash flow hedges (net of income tax effect)	(1,792)	1,347	(736)	(1,933)
Comprehensive income	$42,789	$35,644	$89,465	$62,631

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

Forward-Looking Statements

The matters discussed in this report as well as the news releases issued from time to time by the Company include certain statements containing the words "believes", "anticipates", "intends", "expects" and words of similar import, which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance achievements of the Company or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the following: that the majority of the Company's revenues are produced by a small number of its total facilities; possible changes in the levels and terms of reimbursement for the Company's charges by government programs, including Medicare or Medicaid or other third party payors; industry capacity; demographic changes; existing laws and government regulations and changes in or failure to comply with laws and governmental regulations; the ability to enter into managed care provider agreements on acceptable terms; liability and other claims asserted against the Company; competition; the loss of significant customers; technological and pharmaceutical improvements that increase the cost of providing, or reduce the demand for healthcare; the ability to attract and retain qualified personnel, including nurses and physicians, the ability of the Company to successfully integrate its recent acquisitions; the Company's ability to finance growth on favorable terms and, other factors referenced in the Company's 2001 Form 10-K or herein. Additionally, the Company's financial statements reflect large amounts due from various commercial payors and there can be no assurance that failure of the payors to remit amounts due to the Company will not have a material adverse effect on the Company's future results of operations. 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 12% to $806 million for the three months ended June 30, 2002 as compared to $719 million during last year's second quarter and increased 15% to $1.6 billion during the six months ended June 30, 2002 as compared to $1.4 billion during the comparable prior year period. The $87 million increase in net revenues during the 2002 second quarter, as compared to the comparable prior year quarter, was due primarily to: (i) a $49 million or 7% increase in net revenues generated at behavioral health care facilities and acute care hospitals (located in the U.S., Puerto Rico and France) owned during both periods, and; (ii) $38 million of revenues generated at acute care hospitals located in the U.S. and France purchased subsequent to the second quarter of 2001. The $215 million increase in net revenues during the six month period ended June 30, 2002, as compared to the comparable prior year six month period, was due primarily to: (i) a $115 million or 8% increase in net revenues generated at behavioral health care and acute care hospitals (located in the U.S., Puerto Rico and France) owned during both periods, and; (ii) $98 million of revenues generated at behavioral health care facilities and acute care hospitals located in the U.S. and France purchased at various times subsequent to January 1, 2001.

Net revenues from the Company's acute care facilities (including the nine hospitals located in France) and ambulatory treatment centers accounted for 82% of consolidated net revenues during the three and six month periods ended June 30, 2002 and 80% of consolidated net revenues during the three and six month periods ended June 30, 2001. Net revenues from the Company's behavioral health services facilities accounted for 18% of consolidated net revenues during the three and six month periods ended June 30, 2002 and 20% of consolidated net revenues for the three and six month periods ended June 30, 2001.

Operating income (defined as net revenues less salaries, wages & benefits, other operating expenses, supplies expense and provision for doubtful accounts) increased 17% to $129 million for the three month period ended June 30, 2002 from $111 million in the comparable prior year quarter and increased 16% to $261 million during the six month period ended June 30, 2002 as compared to $224 million in the comparable prior year six month period. Overall operating margins (defined as operating income divided by net revenues) were 16.0% and 15.4% during the three month periods ended June 30, 2002 and 2001, respectively, and 16.2% and 16.0% during the six month periods ended June 30, 2002 and 2001, respectively. Contributing to the increase in the overall operating margins during the three and six month periods of 2002, as compared to the comparable prior year periods, was a decrease in the provision for doubtful accounts. The provision for doubtful accounts, as a percentage of net revenues, decreased to 6.6% during the 2002 second quarter as compared to 8.7% during the 2001 second quarter and decreased to 6.9% during the 2002 six month period as compared to 8.4% in the comparable 2001 six month period. The improvement in the bad debt expense as a percentage of net revenues was primarily attributable to improved billing and collection procedures, an increase in collection of amounts previously reserved and more aggressive efforts to properly categorize charges related to charity care. The improvement in operating margins resulting from the decrease in the provision for doubtful accounts during the 2002 periods as compared to the comparable 2001 periods was partially offset by a significant increase in professional and general liability insurance expense and an increase in salaries, wages and benefits. The increase in professional and general liability insurance was caused by unfavorable pricing and availability trends of commercial insurance. As a result, as of January 1, 2002, the Company's subsidiaries assumed a greater portion of the hospital professional and general liability risk and the Company expects its total insurance expense including professional and general liability, property, auto and workers' compensation to increase approximately $25 million in 2002 as compared to 2001. The increase in salaries, wages and benefits was caused primarily by rising labor rates particularly in the area of skilled nursing. The Company expects the expense factors mentioned above to continue to pressure future operating margins.

Acute Care Services

On a same facility basis, net revenues at the Company's acute care hospitals located in the U.S. and Puerto Rico increased 8% in the 2002 second quarter as compared to the comparable 2001 quarter as admissions and patient days at these facilities increased 6% and 3%, respectively. The average length of stay at these facilities decreased to 4.6 days for three month period ended June 30, 2002 as compared to 4.7 days during the 2001 comparable quarter. Net revenues at these hospitals increased 10% during the six month period ended June 30, 2002 as compared to the comparable prior year period as admissions and patient days at these facilities increased 6% and 5%, respectively. The average length of stay at the acute care hospitals owned during both periods decreased to 4.7 days for the six month period ended June 30, 2002 as compared to 4.8 days during the 2001 comparable period.

In addition to the increase in inpatient volumes, the Company's same facility net revenues were favorably impacted by an increase in prices charged to private payors including health maintenance organizations and preferred provider organizations as well as an increase in Medicare reimbursements which commenced on April 1, 2001. On a same facility basis, net revenue per adjusted admission (adjusted for outpatient activity) at the Company's acute care facilities located in the U.S. and Puerto Rico increased 1% and 4% during the three and six month periods ended June 30, 2002, respectively, as compared to the comparable prior year periods. Net revenue per adjusted patient day at these facilities increased 4% in each of the three and six month periods ended June 30, 2002, respectively, as compared to the comparable prior year periods. Included in the same facility acute care financial results and patient statistical data are the operating results generated at the 60-bed McAllen Heart Hospital which was acquired by the Company in March of 2001. Upon acquisition, the facility began operating under the same license as an integrated department of McAllen Medical Center and therefore the financial and statistical results are not separable.

Despite the increase in patient volume at the Company's acute care hospitals, inpatient utilization continues to be negatively affected by payor-required, pre-admission authorization and by payor pressure to maximize outpatient and alternative healthcare delivery services for less acutely ill patients. Additionally, the hospital industry in the United States as well as the Company's acute care facilities continue to have significant unused capacity which has created substantial competition for patients. The Company expects the increased competition, admission constraints and payor pressures to continue. The increase in net revenue was negatively effected 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 hospitals located in the U.S. and Puerto Rico, operating expenses, (salaries, wages & benefits, other operating expenses, supplies expense and provision for doubtful accounts) as a percentage of net revenues were 82.6% and 82.5% for the three month periods ended June 30, 2002 and 2001, respectively, and 82.7% and 81.5% for the six month periods ended June 30, 2002 and 2001, respectively. Operating margins (defined as net revenues less operating expenses divided by net revenues) at these facilities were 17.4% and 17.5% during the three month periods ended June 30, 2002 and 2001, respectively, and 17.3% and 18.5% during the six month periods ended June 30, 2002 and 2001, respectively. On a same facility basis, operating expenses as a percentage of net revenues at the Company's acute care hospitals located in the U.S. and Puerto Rico were 82.2% and 82.5% for the three month periods ended June 30, 2002 and 2001, respectively, and 82.2% and 81.5% for the six month periods ended June 30, 2002 and 2001, respectively. Operating margins at these facilities were 17.8% and 17.5% during the three month periods ended June 30, 2002 and 2001, respectively, and 17.8% and 18.5% during the six month periods ended June 30, 2002 and 2001, respectively.

Favorably impacting the operating margins at the Company's acute care hospitals located in the U.S. and Puerto Rico during the 2002 periods as compared to the comparable prior year periods was a reduction in the provision for doubtful accounts which, as a percentage of net revenues, decreased to 7.7% and 8.1% for the three and six months ended June 30, 2002, respectively, as compared to 9.9% and 9.5% in the comparable prior year periods, respectively. This improvement was primarily caused by improved billing and collection procedures, an increase in the collection of amounts previously reserved and more aggressive efforts to properly categorize charges related to charity care. Unfavorably impacting the operating margins at these facilities during the three and six month periods ended June 30, 2002, as compared to the comparable prior year periods, was an increase in other operating expenses and salaries, wages and benefits. As a percentage of net revenues, other operating expenses increased to 24.0% and 23.7% for the three and six months ended June 30, 2002, respectively, as compared to 22.5% and 21.7% during the comparable prior year periods, respectively. The increase in other operating expenses was due primarily to a significant increase in professional and general liability insurance expense caused by unfavorable pricing and availability trends of commercial insurance, as mentioned above. Salaries, wages and benefits as a percentage of net revenues increased to 36.6% and 36.4% for the three and six month periods ended June 30, 2002, respectively, as compared to 35.5% in each of the comparable prior year periods. The increase in salaries, wages and benefits was due primarily to rising labor rates particularly in the area of skilled nursing. The Company expects the expense factors mentioned above to continue to pressure future operating margins.

Behavioral Health Services

Net revenues at the Company's behavioral health services facilities owned in both three month periods increased 2% during the three month period ended June 30, 2002 as compared to the comparable prior year quarter. Admissions and patient days at these facilities increased 7% and 5%, respectively, during the three month period ended June 30, 2002 as compared to the comparable prior year quarter. The average length of stay at the behavioral health services facilities owned in both periods decreased to 12.0 days during the 2002 second quarter as compared to 12.4 days in the comparable prior year period. Net revenues at the Company's behavioral health services facilities owned in both six month periods increased 3% during the six month period ended June 30, 2002 as compared to the comparable prior year six month period. Admissions and patient days at these facilities increased 6% and 4%, respectively, during the six month period ended June 30, 2002 as compared to the comparable prior year period. The average length of stay at the behavioral health services facilities owned in both periods decreased to 11.9 days during the 2002 six month period as compared to 12.1 days in the comparable prior year period. Net revenue per adjusted admission (adjusted for outpatient activity) at the Company's behavioral heath care facilities owned in both periods decreased 4% and 2% during the three and six month periods ended June 30, 2002, respectively, as compared to the comparable prior year periods. Net revenue per adjusted patient day at these facilities decreased 1% during the second quarter of 2002 as compared to the prior year's second quarter and remained relatively unchanged during the six months ended June 30, 2002 as compared to the comparable prior year period.

At the Company's behavioral health care facilities, operating expenses (salaries, wages & benefits, other operating expenses, supplies expense and provision for doubtful accounts) as a percentage of net revenues were 79.1% and 79.7% for the three month periods ended June 30, 2002 and 2001, respectively, and 79.5% and 80.0% for the six month periods ended June 30, 2002 and 2001, respectively. Operating margins (defined as net revenues less operating expenses divided by net revenues) at these facilities were 20.9% and 20.3% during the three month periods ended June 30, 2002 and 2001, respectively, and 20.5% and 20.0% in the comparable prior year periods, respectively. On a same facility basis, operating expenses as a percentage of net revenues and operating margins were the same as mentioned above for the three month periods ended June 30, 2002 and 2001 as all behavioral health care facilities were owned in both three month periods. On a same facility basis for the six month periods, operating expenses as a percentage of net revenues were 79.4% and 80.0% for the six month periods ended June 30, 2002 and 2001, respectively. Operating margins at these facilities were 20.6% and 20.0% during the six month periods ended June 30, 2002 and 2001, respectively. 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

The Company recorded minority interest expense in the earnings of consolidated entities amounting to $4.7 million and $3.7 million for the three months ended June 30, 2002 and 2001, respectively, and $10.6 million and $7.6 million for the six month periods ended June 30, 2002 and 2001, respectively. The minority interest expense includes the minority ownerships' share of the net income of four acute care facilities located in the U.S., three of which are located in Las Vegas, Nevada and one located in Washington, D.C, and nine acute care facilities located in France.

Depreciation and amortization expense decreased $1.3 million and $1.7 million during the three and six month periods ended June 30, 2002 as compared to the comparable prior year periods, respectively. Effective January 1, 2002, the Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" and accordingly, ceased amortizing goodwill as of that date. For the year ended December 31, 2001, the Company recorded approximately $24 million of goodwill amortization expense or approximately $6 million and $12 million during the three and six month periods ended June 30, 2001. Partially offsetting the decrease caused by the adoption of SFAS No. 142 was an increase in depreciation expense during three and six month periods of 2002, as compared to the comparable 2001 periods, caused by depreciation expense attributable to capital additions and acquisitions.

The effective tax rate was 36.7% and 36.4% for the three months ended June 30, 2002 and 2001, respectively, and 36.7% and 36.4% for the six months ended June 30, 2002 and 2001, respectively.

General Trends

A significant portion of the Company's revenue is derived from fixed payment services, including Medicare and Medicaid which accounted for 44% and 42% of the Company's net patient revenues during the three month periods ended June 30, 2002 and 2001, respectively, and 42% and 41% during the six month periods ended June 30, 2002 and 2001, respectively. 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 adjustment that might result therefrom.

The Federal government makes payments to participating hospitals under its Medicare program based on various formulas. The Company's general acute care hospitals are subject to a prospective payment system ("PPS"). For inpatient services, PPS pays hospitals a predetermined amount per diagnostic related group ("DRG") 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 hospitals' outpatient services are paid a predetermined amount per Ambulatory Payment Classification based upon a hospital's location and the procedures performed. The Medicare, Medicaid and SCHIP Balanced Budget Refinement Act of 1999 ("BBRA of 1999") included "transitional corridor payments" through fiscal year 2003, which provide some financial relief for any hospital that generally incurs a reduction to its Medicare outpatient reimbursement under the new OPPS.

Behavioral health facilities, which are excluded from the inpatient services PPS, are cost reimbursed by the Medicare program, but are generally subject to a per discharge ceiling, calculated based on an annual allowable rate of increase over the hospital's base year amount under the Medicare law and regulations. Capital related costs are exempt from this limitation. In the Balanced Budget Act of 1997 ("BBA-97"), Congress significantly revised the Medicare payment provisions for PPS-excluded hospitals, including behavioral health services facilities. Effective for Medicare cost reporting periods beginning on or after October 1, 1997, different caps are applied to behavioral health services hospitals' target amounts depending upon whether a hospital was excluded from PPS before or after that date, with higher caps for hospitals excluded before that date. Congress also revised the rate-of-increase percentages for PPS-excluded hospitals and eliminated the new provider PPS-exemption for psychiatric hospitals. In addition, the Health Care Financing Administration, now known as the Center for Medicare and Medicaid Services ("CMS"), has implemented requirements applicable to behavioral health services hospitals that share a facility or campus with another hospital. The BBRA of 1999 requires that CMS develop an inpatient behavioral health services per diem prospective payment system effective for the federal fiscal year beginning October 1, 2002, however, it is likely the implementation will be delayed. Upon implementation, this new prospective payment system will replace the current inpatient behavioral health services payment system described above.

On August 30, 1991, the CMS 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 of the Company's hospitals were paid by the Medicare program based on the 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 during which a blend of the old and new capital payment provision is utilized. One of two methodologies applies during the 10-year transition period. If the hospital's hospital-specific capital rate exceeds the federal capital rate, the hospital is paid per discharge on the basis of a "hold harmless" methodology, which is the higher of a blend of a portion of old capital costs and an amount for new capital costs based on a proportion of the federal capital rate, or 100% of the federal capital rate. Alternatively, with limited exceptions, if the hospital-specific rate is below the federal capital rate, the hospital receives payments based upon a "fully prospective" methodology, which is a blend of the hospital's hospital-specific capital rate and the 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, was 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. BBA-97 called for the government to trim the growth of federal spending on Medicare by $115 billion and on Medicaid by $13 billion over the following 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 ("BIPA") which, among other things, increased Medicare and Medicaid payments to healthcare 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 commenced in April, 2001. BBA-97 established the annual update for Medicare at market basket minus 1.1% in both fiscal years 2001 (October 1, 2000 and 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. It is possible that future federal 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 BBA-97, will not adversely affect the Company's 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 ("JCAHO") and quality of care concerns. In addition, hospital costs are affected by the level of patient acuity, occupancy rates and local physician practice patterns, including length of stay and number and type of tests and procedures ordered. A hospital's ability to control or influence these factors which affect costs is, in many cases, limited.

In 1991, the Texas legislature authorized the LoneSTAR Health Initiative, a pilot program in two areas of the state, to establish for Medicaid beneficiaries a healthcare delivery system based on managed care principles. The program is now known as the STAR program, which is short for State of Texas Access Reform. Since 1995, the Texas Health and Human Services Commission, with the help of other Texas agencies such as the Texas Department of Health, has rolled out STAR Medicaid managed care pilot programs in several geographic areas of the state. Under the STAR program, the Texas Department of Health either contracts with health maintenance organizations in each area to arrange for covered services to Medicaid beneficiaries, or contracts directly with healthcare providers and oversees the furnishing of care in the role of the case manager. Two carve-out pilot programs are the STAR+PLUS program, which provides long-term care to elderly and disabled Medicaid beneficiaries in the Harris County service area, and the NorthSTAR program, which furnishes behavioral health services to Medicaid beneficiaries in the Dallas County service area. Effective in the fall of 1999, however, the Texas legislature imposed a moratorium on the implementation of additional pilot programs until the 2001 legislative session. A study on the effectiveness of Medicaid managed care was issued in November, 2000. In June 2001, the state enacted House Bill 3038, which requires the enrollment in group health plans of Medicaid and SCHIP recipients who are eligible for such plans, if the state determines that such enrollment is cost-effective. The effective date for this requirement was September 1, 2001. The state has indicated, however, that it will not be expanding the Medicaid Managed Care program to any additional areas within the next year.

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 $8.8 million and $9.1 million for the three month periods ended June 30, 2002 and 2001, respectively, and $17.2 million and $15.5 million for the six month periods ended June 30, 2002 and 2001, respectively. Failure to renew these programs upon their scheduled termination date (June 30, 2002 for South Carolina and August 31, 2002 for Texas), or reductions in reimbursements, could have a material adverse effect on the Company's future results of operations.

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

Pressures to control health care costs and a shift away from traditional Medicare to Medicare managed care plans have resulted in an increase in the number of patients whose health care coverage is provided under managed care plans. Approximately 37% and 39% for the three month periods ended June 30, 2002 and 2001, respectively, and 39% and 37% for the six month periods ended June 30, 2002 and 2001, respectively, 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 the past two years, the Company secured price increases from many of its commercial payors including managed care companies.

For the period from January 1, 1998 through December 31, 2001, most of the Company's subsidiaries were covered under commercial insurance policies with PHICO, a Pennsylvania based insurance company. The policies provided for a self-insured retention limit for professional and general liability claims for the Company's 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 other major insurance carriers.

Early in the first quarter of 2002, PHICO was placed in liquidation by the Pennsylvania Insurance Commissioner and as a result, the Company recorded a pre-tax charge to earnings of $40 million during the fourth quarter of 2001 to reserve for malpractice expenses that may result from PHICO's liquidation. PHICO continues to have substantial liability to pay claims on behalf of the Company and although those claims could become the Company's liability, the Company may be entitled to receive reimbursement from state insurance guaranty funds and/or PHICO's estate for a portion of certain claims ultimately paid by the Company. The Company expects that the cash payments related to these claims will be made over the next eight years as the cases are settled or adjudicated. In estimating the $40 million pre-tax charge during the fourth quarter of 2001, the Company evaluated all known factors at that time. As of June 30, 2002, these factors have not substantially changed. However, there can be no assurance that the Company's ultimate liability will not be materially different than the estimated charge recorded. Additionally, if the ultimate PHICO liability assumed by the Company is substantially greater than the established reserve, there can be no assurance that the additional amount required will not have a material adverse effect on the Company's future results of operations.

Due to unfavorable pricing and availability trends in the professional and general liability insurance markets, the cost of commercial professional and general liability insurance coverage has risen significantly. As a result, the Company expects its total insurance expense including professional and general liability, property, auto and workers' compensation to increase approximately $25 million in 2002 as compared to 2001. The Company's subsidiaries have also assumed a greater portion of the hospital professional and general liability risk for its facilities. Effective January 1, 2002, most of the Company's subsidiaries are self-insured for malpractice exposure up to $25 million per occurrence. The Company purchased an umbrella excess policy through a commercial insurance carrier for coverage in excess of $25 million per occurrence with a $75 million aggregate limitation.

The Company maintains a non-contributory defined benefit 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 plan had invested assets with a market value as of June 30, 2002 of $46.6 million of which 70% were invested in equity based securities and 30% in fixed income securities. As a result of the unfavorable general market conditions and lower than anticipated returns on assets, there can be no assurance that the Company's future expense and required fundings related to this plan will not be substantially higher than those experienced in previous years.

Health Insurance Portability and Accountability Act of 1996

The Health Insurance Portability and Accountability Act (HIPAA) was enacted in August, 1996 to assure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health information and enforce standards for health information. Organizations are required to be in compliance with certain HIPAA provisions beginning as early as October, 2002. Provisions not yet finalized are required to be implemented two years after the effective date of the regulation. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. Regulations related to HIPAA are expected to impact the Company and others in the healthcare industry by:

(i) Establishing standardized code sets for financial and clinical electronic data interchange ("EDI") transactions to enable more efficient flow of information. Currently there is no common standard for the transfer of information between the constituents in healthcare and therefore providers have had to conform to each standard utilized by every party with which they interact. 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, unless a summary plan is submitted to CMS prior to that date requesting a one-year extension to October, 2003. The Company is in the process of applying for the one-year extension.

(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 April, 2003.

(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.

The Company is in the process of implementation of the necessary changes required pursuant to the terms of HIPAA. The Company expects that the implementation cost of the HIPAA related modifications will not have a material adverse effect on the Company's financial condition or results of operations.

Liquidity and Capital Resources

Net cash provided by operating activities was $134 million during the six months ended June 30, 2002 and $153 million during the comparable prior year period. The $19 million decrease during the 2002 six month period as compared to the 2001 comparable period was primarily attributable to: (i) a favorable $19 million change due to an increase in net income plus the addback of adjustments to reconcile net cash provided by operating activities (depreciation & amortization, accretion of discount on convertible debentures and losses on foreign exchange and derivative transactions); (ii) a $34 million unfavorable change in accounts receivable; (iii) a $13 million unfavorable change in accrued and deferred income taxes, and; (iv) $9 million of other net favorable working capital changes.

The Company spent approximately $97 million during the first six months of 2002 and $69 million during the first six months of 2001 to finance capital expenditures. The Company expects to spend an additional $103 million to $128 million to finance capital expenditures during the second half of 2002 thereby making the estimated capital expenditures for the full year of 2002 approximately $200 to $225 million. Included in the 2002 projected capital expenditures will be the remaining expenditures on the new George Washington University Hospital located in Washington, D.C (scheduled to open in late August, 2002), a major renovation and modernization of Auburn Regional Medical Center located in Auburn, Washington (scheduled to be completed in December of 2002), the first phase of a new 176-bed acute care hospital located in Las Vegas, Nevada (projected to be completed in the third quarter of 2003), a major new cardiology wing and bed expansion of Northwest Texas Healthcare System located in Amarillo, Texas (projected to be completed in the third quarter of 2003) and construction of a new 120-bed acute care hospital in Manatee County, Florida (scheduled to open in late fourth quarter of 2003).

As of June 30, 2002, the Company had $333 million of unused borrowing capacity under the terms of its $400 million unsecured non-amortizing revolving credit agreement, which expires on December 13, 2006. The agreement includes a $50 million sublimit for letters of credit of which $38 million was available at March 31, 2002. The interest rate on borrowings is determined at the Company's option at the prime rate, certificate of deposit rate plus .925% to 1.275%, Euro-dollar plus .80% to 1.150% or a money market rate. A facility fee ranging from .20% to .35% is required on the total commitment. The margins over the certificate of deposit, the Euro-dollar rates and the facility fee are based upon the Company's leverage ratio. As of June 30, 2002, the applicable margins over the certificate of deposit and the Euro-dollar rate were 1.125% and 1.00%, respectively, and the commitment fee was .25%. There are no compensating balance requirements.

As of June 30, 2002, 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 in October of each year. The commercial paper program has been renewed for the period of October 24, 2001 through October 23, 2002.

During 2002, a majority-owned subsidiary of the Company entered into a senior line of credit agreement denominated in Euros amounting to 45.8 million Euros ($42.7 million based on the end of period currency exchange rate). The loan, which is non-recourse to the Company, amortizes to zero over the life of the agreement and matures on December 31, 2007. Interest on the loan is at the option of the Company's majority-owned subsidiary and can be based on the one, two, three or six month EURIBOR plus a spread of 2.5%. The Company's majority-owned subsidiary also entered into an interest rate swap agreement, denominated in Euros, as a hedge to this debt facility. The initial notional principal amount of the swap is 30.5 million Euros ($28.5 million) decreasing to 27.5 million Euros on December 30, 2002 ($25.6 million), 23.4 million Euros on December 30, 2003 ($21.8 million) and 18.3 million Euros on December 30, 2004 ($17.1 million). The swap matures on June 30, 2005. The swap requires the Company's majority-owned subsidiary to pay a fixed rate of 4.715% and receive a variable rate equal to the six month EURIBOR. As of June 30, 2002, the variable rate on the swap was 3.5%.

The Company's total debt as a percentage of total capitalization was 43% at June 30, 2002 and 47% at December 31, 2001.

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

During 1998 and 1999, the Company's Board of Directors approved stock purchase programs authorizing the Company to purchase up to 12 million shares of its outstanding Class B Common Stock on the open market at prevailing market prices or in negotiated transactions off the market. Pursuant to the terms of these programs, the Company purchased an additional 77,342 shares during the six months ended June 30, 2002 at an average purchase price of $39.67 per share ($3.1 million in the aggregate). Since inception of the stock purchase program in 1998 through June 30, 2002, the Company purchased a total of 7,881,157 shares at an average purchase price of $18.13 per share ($142.9 million in the aggregate).

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

PART II. OTHER INFORMATION

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the quantitative and qualitative disclosures in 2002 other than the changes as described below. Reference is made to Item 7 in the Annual Report on Form 10-K for the year ended December 31, 2001.

During 2002, a majority-owned subsidiary of the Company entered into a senior line of credit agreement denominated in Euros amounting to 45.8 million Euros ($42.7 million based on the end of period currency exchange rate). The loan, which is non-recourse to the Company, amortizes to zero over the life of the agreement and matures on December 31, 2007. Interest on the loan is at the option of the Company's majority-owned subsidiary and can be based on the one, two, three or six month EURIBOR plus a spread of 2.5%. The Company's majority-owned subsidiary also entered into an interest rate swap agreement, denominated in Euros, as a hedge to this debt facility. The initial notional principal amount of the swap is 30.5 million Euros ($28.5 million) decreasing to 27.5 million Euros on December 30, 2002 ($25.6 million), 23.4 million Euros on December 30, 2003 ($21.8 million) and 18.3 million Euros on December 30, 2004 ($17.1 million). The swap matures on June 30, 2005. The swap requires the Company's majority-owned subsidiary to pay a fixed rate of 4.715% and receive a variable rate equal to the six month EURIBOR. As of June 30, 2002, the variable rate on the swap was 3.5%. The debt and swap notional amounts show below are denominated in Euros and have been converted to U.S. dollars using the end of period currency exchange rate.

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

	2002	2003	2004	2005	2006	Thereafter	Total
Variable Rate							
Long-term debt:	$ 4,268	$ 5,697	$ 7,116	$ 8,545	$ 8,545	$ 8,554	$ 42,725
Interest rate swaps:							
Pay fixed/receive variable:							
Notional amounts:	$ 28,483	25,637	$21,841	$17,097			
Average pay rate:	4.715%	4.715%	4.715%	4.715%			
Average receive rate:	6 Month EURIBOR	6 Month EURIBOR	6 Month EURIBOR	6 Month EURIBOR			

Item 4. Submission of Matters to a Vote of Security Holders

(a) The following information relates to matters submitted to the election of shareholders of Universal Health Services, Inc. (the "Company") at the Annual Meeting of Stockholders held on May 15, 2002.

(b) Not applicable

(c) At the meeting, the following proposals, as described in the proxy statement delivered to all the Company's stockholders were approved by the votes indicated:

Election by Class A & Class C stockholders of Class III Director, Alan B. Miller:

Votes cast in favor	4,624,582
Votes against	0

Election by Class B & Class D stockholders of Class III Director, John F. Williams, Jr., M.D., Ed.D:

Votes cast in favor	48,374,654
Votes withheld	1,184,931

Adoption of the Company's Executive Incentive Plan:

Votes cast in favor	47,672,523
Votes withheld	159,181

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:
None

(b) Report on Form 8-K dated June 18, 2002, reported under Item 4, Changes in Registrant's Certifying Accountant, that Universal Health Services, Inc. (the "Company") informed its independent accountants, Arthur Andersen LLP, that they would be dismissed effective as of June 18, 2002 and that the Company retained KPMG LLP as its independent accountants, effective as of June 18, 2002.

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

All other items of this Report are inapplicable.

Signature

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

Universal Health Services, Inc.
(Registrant)

Date: August 13, 2002

/s/ Alan B. Miller

Alan B. Miller, President and
Chief Executive Officer

/s/ Kirk E. Gorman

Kirk E. Gorman, Senior Vice President and
Chief Financial Officer
Principal Financial Officer and
Duly Authorized Officer).