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

FORM 10-Q

(MARK ONE)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2020

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 offices) (Zip Code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class B Common Stock, $0.01 par value	UHS	New York Stock Exchange

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ 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, 2020:

Class A	6,577,100
Class B	77,700,358
Class C	661,688
Class D	18,411

UNIVERSAL HEALTH SERVICES, INC.

INDEX

This Quarterly Report on Form 10-Q is for the quarter ended June 30, 2020. This Report modifies and supersedes documents filed prior to this Report. Information that we file with the Securities and Exchange Commission (the "SEC") in the future will automatically update and supersede information contained in this Report.

In this Quarterly Report, "we," "us," "our" "UHS" and the "Company" refer to Universal Health Services, Inc. and its subsidiaries. UHS is a registered trademark of UHS of Delaware, Inc., the management company for, and a wholly-owned subsidiary of Universal Health Services, Inc. Universal Health Services, Inc. is a holding company and operates through its subsidiaries including its management company, UHS of Delaware, Inc. All healthcare and management operations are conducted by subsidiaries of Universal Health Services, Inc. To the extent any reference to "UHS" or "UHS facilities" in this report including letters, narratives or other forms contained herein relates to our healthcare or management operations it is referring to Universal Health Services, Inc.'s subsidiaries including UHS of Delaware, Inc. Further, the terms "we," "us," "our" or the "Company" in such context similarly refer to the operations of Universal Health Services Inc.'s subsidiaries including UHS of Delaware, Inc. Any reference to employees or employment contained herein refers to employment with or employees of the subsidiaries of Universal Health Services, Inc. including UHS of Delaware, Inc.

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

(amounts in thousands, except per share amounts)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Net revenues	$ 2,729,754	$ 2,855,168	$ 5,559,421	$ 5,659,559
Operating charges:				
Salaries, wages and benefits	1,308,010	1,383,481	2,740,679	2,749,027
Other operating expenses	625,747	672,564	1,315,537	1,317,344
Supplies expense	283,572	305,857	601,399	613,320
Depreciation and amortization	126,208	121,168	250,602	241,208
Lease and rental expense	28,186	26,535	56,479	52,660
	2,371,723	2,509,605	4,964,696	4,973,559
Income from operations	358,031	345,563	594,725	686,000
Interest expense, net	25,473	42,487	61,824	82,127
Other (income) expense, net	(3,100)	(7,732)	6,460	(3,231)
Income before income taxes	335,658	310,808	526,441	607,104
Provision for income taxes	79,154	69,543	125,477	128,441
Net income	256,504	241,265	400,964	478,663
Less: Net income attributable to noncontrolling interests	4,575	2,945	6,998	6,175
Net income attributable to UHS	$ 251,929	$ 238,320	$ 393,966	$ 472,488
Basic earnings per share attributable to UHS	$ 2.97	$ 2.67	$ 4.60	$ 5.24
Diluted earnings per share attributable to UHS	$ 2.95	$ 2.66	$ 4.58	$ 5.23
Weighted average number of common shares - basic	84,632	89,136	85,422	89,956
Add: Other share equivalents	427	99	335	145
Weighted average number of common shares and equivalents - diluted	85,059	89,235	85,757	90,101

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(amounts in thousands, unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Net income	$ 256,504	$ 241,265	$ 400,964	$ 478,663
Other comprehensive income (loss):				
Unrealized derivative gains (losses) on cash flow hedges	-	(1,008)	-	(3,925)
Foreign currency translation adjustment	6,676	5,159	(32,525)	(9,103)
Other comprehensive income (loss) before tax	6,676	4,151	(32,525)	(13,028)
Income tax expense (benefit) related to items of other comprehensive income (loss)	898	1,616	(1,210)	(850)
Total other comprehensive income (loss), net of tax	5,778	2,535	(31,315)	(12,178)
Comprehensive income	262,282	243,800	369,649	466,485
Less: Comprehensive income attributable to noncontrolling interests	4,575	2,945	6,998	6,175
Comprehensive income attributable to UHS	$ 257,707	$ 240,855	$ 362,651	$ 460,310

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands, unaudited)

	June 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 539,622	$ 61,268
Accounts receivable, net	1,438,697	1,560,847
Supplies	167,626	159,889
Other current assets	150,842	133,930
Total current assets	2,296,787	1,915,934
Property and equipment	9,398,890	9,106,377
Less: accumulated depreciation	(4,294,341)	(4,089,679)
	5,104,549	5,016,698
Other assets:		
Goodwill	3,836,020	3,869,760
Deferred income taxes	20,241	16,189
Right of use assets-operating leases	335,388	326,518
Deferred charges	6,390	6,373
Other	549,124	516,778
Total Assets	$ 12,148,499	$ 11,668,250
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	$ 82,085	$ 87,550
Accounts payable and other liabilities	1,371,698	1,272,374
Medicare accelerated payments and deferred governmental stimulus grants	477,099	—
Legal reserves	145,227	144,509
Operating lease liabilities	56,629	56,442
Federal and state taxes	126,431	2,515
Total current liabilities	2,259,169	1,563,390
Other noncurrent liabilities	374,616	329,932
Operating lease liabilities noncurrent	279,747	270,076
Long-term debt	3,449,940	3,896,577
Deferred income taxes	19,168	25,071
Redeemable noncontrolling interests	4,287	4,333
Equity:		
UHS common stockholders' equity	5,688,647	5,504,105
Noncontrolling interest	72,925	74,766
Total equity	5,761,572	5,578,871
Total Liabilities and Stockholders' Equity	$ 12,148,499	$ 11,668,250

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Three and Six Months ended June 30, 2020
(amounts in thousands, unaudited)

	Redeemable Noncontrolling Interest	Class A Common	Class B Common	Class C Common	Class D Common	Cumulative Dividends	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	UHS Common Stockholders' Equity	Noncontrolling Interest	Total
Balance, January 1, 2020	$ 4,333	$ 66	$ 794	$ 7	$ 0	$ (462,159)	$ 5,933,504	$ 31,893	$ 5,504,105	$ 74,766	$ 5,578,871
Common Stock											
Issued/(converted)	—	—	3	—	—	—	5,960	—	5,963	—	5,963
Repurchased	—	—	(20)	—	—	—	(200,034)	—	(200,054)	—	(200,054)
Restricted share-based compensation expense	—	—	—	—	—	—	4,749	—	4,749	—	4,749
Dividends paid	—	—	—	—	—	(17,344)	—	—	(17,344)	—	(17,344)
Stock option expense	—	—	—	—	—	—	28,577	—	28,577	—	28,577
Distributions to noncontrolling interests	(500)	—	—	—	—	—	—	—	—	(8,385)	(8,385)
Comprehensive income:											
Net income to UHS / noncontrolling interests	454	—	—	—	—	—	393,966	—	393,966	6,544	400,510
Foreign currency translation adjustments, net of income tax	—	—	—	—	—	—	—	(31,315)	(31,315)	—	(31,315)
Subtotal - comprehensive income	454	—	—	—	—	—	393,966	(31,315)	362,651	6,544	369,195
Balance, June 30, 2020	$ 4,287	$ 66	$ 777	$ 7	$ 0	$ (479,503)	$ 6,166,722	$ 578	$ 5,688,647	$ 72,925	$ 5,761,572

	Redeemable Noncontrolling Interest	Class A Common	Class B Common	Class C Common	Class D Common	Cumulative Dividends	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	UHS Common Stockholders' Equity	Noncontrolling Interest	Total
Balance, April 1, 2020	$ 3,953	$ 66	$ 776	$ 7	$ 0	$ (479,503)	$ 5,897,063	$ (5,200)	$ 5,413,209	$ 71,834	$ 5,485,043
Common Stock											
Issued/(converted)	—	—	1	—	—	—	2,850	—	2,851	—	2,851
Repurchased	—	—	—	—	—	—	(762)	—	(762)	—	(762)
Restricted share-based compensation expense	—	—	—	—	—	—	2,394	—	2,394	—	2,394
Dividends paid	—	—	—	—	—	—	—	—	—	—	—
Stock option expense	—	—	—	—	—	—	13,248	—	13,248	—	13,248
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(3,151)	(3,151)
Purchase of noncontrolling interest	—	—	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—	—	—
Comprehensive income:											
Net income to UHS / noncontrolling interests	334	—	—	—	—	—	251,929	—	251,929	4,242	256,171
Foreign currency translation adjustments, net of income tax	—	—	—	—	—	—	—	5,778	5,778	—	5,778
Subtotal - comprehensive income	334	—	—	—	—	—	251,929	5,778	257,707	4,242	261,949
Balance, June 30, 2020	$ 4,287	$ 66	$ 777	$ 7	$ 0	$ (479,503)	$ 6,166,722	$ 578	$ 5,688,647	$ 72,925	$ 5,761,572

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Three and Six Months ended June 30, 2019
(amounts in thousands, unaudited)

	Redeemable Noncontrolling Interest	Class A Common	Class B Common	Class C Common	Class D Common	Cumulative Dividends	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	UHS Common Stockholders' Equity	Noncontrolling Interest	Total
Balance, January 1, 2019	$ 4,292	$ 66	$ 841	$ 7	$ 0	$ (409,156)	$ 5,793,262	$ 4,242	$ 5,389,262	$ 76,531	$ 5,465,793
Common Stock											
Issued/(converted)	—	—	6	—	—	—	5,399	—	5,405	—	5,405
Repurchased	—	—	(37)	—	—	—	(478,035)	—	(478,072)	—	(478,072)
Restricted share-based compensation expense	—	—	—	—	—	—	3,659	—	3,659	—	3,659
Dividends paid	—	—	—	—	—	(17,953)	—	—	(17,953)	—	(17,953)
Stock option expense	—	—	—	—	—	—	30,478	—	30,478	—	30,478
Distributions to noncontrolling interests	(500)	—	—	—	—	—	—	—	—	(11,150)	(11,150)
Comprehensive income:											
Net income to UHS / noncontrolling interests	194	—	—	—	—	—	472,488	—	472,488	5,981	478,469
Foreign currency translation adjustments	—	—	—	—	—	—	—	(9,181)	(9,181)	—	(9,181)
Unrealized derivative gains on cash flow hedges, net of income tax	—	—	—	—	—	—	—	(2,997)	(2,997)	—	(2,997)
Subtotal - comprehensive income	194	—	—	—	—	—	472,488	(12,178)	460,310	5,981	466,291
Balance, June 30, 2019	$ 3,986	$ 66	$ 810	$ 7	$ 0	$ (427,109)	$ 5,827,251	$ (7,936)	$ 5,393,089	$ 71,362	$ 5,464,451

	Redeemable Noncontrolling Interest	Class A Common	Class B Common	Class C Common	Class D Common	Cumulative Dividends	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	UHS Common Stockholders' Equity	Noncontrolling Interest	Total
Balance, April 1, 2019	$ 3,843	$ 66	$ 837	$ 7	$ 0	$ (418,237)	$ 5,910,213	$ (10,471)	$ 5,482,415	$ 69,896	$ 5,552,311
Common Stock											
Issued/(converted)	—	—	—	—	—	—	2,679	—	2,679	—	2,679
Repurchased	—	—	(27)	—	—	—	(340,816)	—	(340,843)	—	(340,843)
Restricted share-based compensation expense	—	—	—	—	—	—	2,136	—	2,136	—	2,136
Dividends paid	—	—	—	—	—	(8,872)	—	—	(8,872)	—	(8,872)
Stock option expense	—	—	—	—	—	—	14,719	—	14,719	—	14,719
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(1,336)	(1,336)
Comprehensive income:											
Net income to UHS / noncontrolling interests	143	—	—	—	—	—	238,320	—	238,320	2,802	241,122
Foreign currency translation adjustments	—	—	—	—	—	—	—	3,308	3,308	—	3,308
Unrealized derivative gains on cash flow hedges, net of income tax	—	—	—	—	—	—	—	(773)	(773)	—	(773)
Subtotal - comprehensive income	143	—	—	—	—	—	238,320	2,535	240,855	2,802	243,657
Balance, June 30, 2019	$ 3,986	$ 66	$ 810	$ 7	$ 0	$ (427,109)	$ 5,827,251	$ (7,936)	$ 5,393,089	$ 71,362	$ 5,464,451

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands, unaudited)

	Six months ended June 30,	
	2020	2019
Cash Flows from Operating Activities:		
Net income	$ 400,964	$ 478,663
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	250,602	241,208
Loss on sale of assets and businesses	2,161	-
Stock-based compensation expense	33,954	34,676
Changes in assets & liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	131,294	(101,329)
Accrued interest	(2,191)	948
Accrued and deferred income taxes	116,707	(16,846)
Other working capital accounts	26,361	30,082
Medicare accelerated payments and deferred governmental stimulus grants	477,099	-
Other assets and deferred charges	5,095	(1,333)
Other	(7,659)	(1,209)
Accrued insurance expense, net of commercial premiums paid	81,016	51,819
Payments made in settlement of self-insurance claims	(64,034)	(44,115)
Net cash provided by operating activities	1,451,369	672,564
Cash Flows from Investing Activities:		
Property and equipment additions, net of disposals	(354,610)	(323,920)
Proceeds received from sales of assets and businesses	6,440	-
Acquisition of businesses and property	(968)	-
Inflows from foreign exchange contracts that hedge our net U.K. investment	57,029	4,885
Costs incurred for purchase and implementation of information technology applications	(4,421)	(13,893)
Investment in, and advances to, joint ventures and other	(285)	(11,949)
Net cash used in investing activities	(296,815)	(344,877)
Cash Flows from Financing Activities:		
Reduction of long-term debt	(459,332)	(28,617)
Additional borrowings	5,453	177,200
Repurchase of common shares	(200,054)	(494,649)
Dividends paid	(17,344)	(17,953)
Issuance of common stock	5,852	5,271
Profit distributions to noncontrolling interests	(8,885)	(11,650)
Net cash used in financing activities	(674,310)	(370,398)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1,639)	(273)
Increase (decrease) in cash, cash equivalents and restricted cash	478,605	(42,984)
Cash, cash equivalents and restricted cash, beginning of period	105,667	199,685
Cash, cash equivalents and restricted cash, end of period	$ 584,272	$ 156,701
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 61,802	$ 78,623
Income taxes paid, net of refunds	$ 14,394	$ 145,404
Noncash purchases of property and equipment	$ 80,031	$ 71,923
Right-of-use assets obtained in exchange for lease obligations	$ 37,780	$ 359,329

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

(1) General

This Quarterly Report on Form 10-Q is for the quarterly period ended June 30, 2020. In this Quarterly Report, "we," "us," "our" "UHS" and the "Company" refer to Universal Health Services, Inc. and its subsidiaries.

The condensed consolidated interim financial statements include the accounts of our majority-owned subsidiaries and partnerships and limited liability companies controlled by us, or our subsidiaries, as managing general partner or managing member. The condensed consolidated interim financial statements included herein have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and reflect all adjustments (consisting only of normal recurring adjustments) which, in our opinion, are necessary to fairly state results for the interim periods. Certain information and footnote disclosures normally included in audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although we believe that the accompanying disclosures are adequate to make the information presented not misleading. These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements, significant accounting policies and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2019.

In March, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic and the federal government declared COVID-19 a national emergency. Patient volumes at both our acute care and behavioral health care facilities were most significantly reduced in April. Our acute care and behavioral health facilities began experiencing gradual and continued improvement in patient volumes in May and June as various states eased stay-at-home restrictions and acute care hospitals were permitted to resume elective surgeries and procedures. However, many of our acute care and behavioral health facilities are located in states that began experiencing significant increases in COVID-19 infections in June and continuing through July and into early August.

We believe that the adverse impact that COVID-19 will have on our future operations and financial results will depend upon many factors, most of which are beyond our capability to control or predict. Such factors include, but are not limited to, the scope and duration of stay-at-home policies and business closures and restrictions, government imposed or recommended suspensions of elective surgeries and procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure. Because of these and other uncertainties, we cannot estimate the length or severity of the impact of COVID-19 on our business. Decreases in cash flows and results of operations may have an impact on the inputs and assumptions used in significant accounting estimates, including estimated implicit price concessions related to uninsured patient accounts, professional and general liability reserves, and potential impairments of goodwill and long-lived assets.

(2) Relationship with Universal Health Realty Income Trust and Related Party Transactions

Relationship with Universal Health Realty Income Trust:

At June 30, 2020, we held approximately 5.7% of the outstanding shares of Universal Health Realty Income Trust (the "Trust"). We serve as Advisor to the Trust under an annually renewable advisory agreement, which is scheduled to expire on December 31st of each year, pursuant to the terms of which we conduct the Trust's day-to-day affairs, provide administrative services and present investment opportunities. The advisory agreement was amended and restated effective January 1, 2019. The advisory agreement was renewed by the Trust for 2020 at the same rate as the prior three years, providing for an advisory fee computation at 0.70% of the Trust's average invested real estate assets. We earned an advisory fee from the Trust, which is included in net revenues in the accompanying consolidated statements of income, of approximately $1.0 million during each of the three-month periods ended June 30, 2020 and 2019, and approximately $2.0 million during each of the six-month periods ended June 30, 2020 and 2019.

In addition, certain of our officers and directors are also officers and/or directors of the Trust. Management believes that it has the ability to exercise significant influence over the Trust, therefore we account for our investment in the Trust using the equity method of accounting.

Our pre-tax share of income from the Trust, which are included in other income, net, on the accompanying consolidated statements of income for each period were approximately $200,000 during each of the three-month periods ended June 30, 2020 and 2019, and approximately $500,000 during each of the six-month periods ended June 30, 2020 and 2019. We received dividends from the Trust amounting to $543,000 and $536,000 during the three month periods ended June 30, 2020 and 2019, respectively, and $1.1 million during each of the six-month periods ended June 30, 2020 and 2019. The carrying value of our investment in the Trust was approximately $5.9 million and $6.4 million at June 30, 2020 and December 31, 2019, respectively, and is included in other assets in the accompanying consolidated balance sheets. The market value of our investment in the Trust was $62.6 million at June 30, 2020 and $92.4 million at December 31, 2019, based on the closing price of the Trust's stock on the respective dates.

The Trust commenced operations in 1986 by purchasing certain properties from us and immediately leasing the properties back to our respective subsidiaries. Most of the leases were entered into at the time the Trust commenced operations and provided for initial terms of 13 to 15 years with up to six additional 5-year renewal terms. Each lease also provided for additional or bonus rental, as discussed below. The base rents are paid monthly and the bonus rents are computed and paid on a quarterly basis, based upon a computation that compares current quarter revenue to a corresponding quarter in the base year. The leases with those subsidiaries are unconditionally guaranteed by us and are cross-defaulted with one another.

Total rent expense under the operating leases on the three hospital facilities with the Trust was approximately $4 million during each of the three months ended June 30, 2020 and 2019, and approximately $8 million for each of the six-month periods ended June 30, 2020 and 2019. Pursuant to the terms of the three hospital leases with the Trust, we have the option to renew the leases at the lease terms described above and below by providing notice to the Trust at least 90 days prior to the termination of the then current term. We also have the right to purchase the respective leased hospitals at the end of the lease terms or any renewal terms at their appraised fair market value as well as purchase any or all of the three leased hospital properties at the appraised fair market value upon one month's notice should a change of control of the Trust occur. In addition, we have rights of first refusal to: (i) purchase the respective leased facilities during and for 180 days after the lease terms at the same price, terms and conditions of any third-party offer, or; (ii) renew the lease on the respective leased facility at the end of, and for 180 days after, the lease term at the same terms and conditions pursuant to any third-party offer.

The table below details the renewal options and terms for each of our three acute care hospital facilities leased from the Trust:

Hospital Name	Annual Minimum Rent	End of Lease Term	Renewal Term (years)
McAllen Medical Center	$ 5,485,000	December, 2026	5(a)
Wellington Regional Medical Center	$ 3,030,000	December, 2021	10(b)
Southwest Healthcare System, Inland Valley Campus	$ 2,648,000	December, 2021	10(b)

(a) We have one 5-year renewal option at existing lease rates (through 2031).
(b) We have two 5-year renewal options at fair market value lease rates (2022 through 2031).

In addition, certain of our subsidiaries are tenants in several medical office buildings and two FEDs owned by the Trust or by limited liability companies in which the Trust holds 95% to 100% of the ownership interest.

During the third quarter of 2019, the Trust commenced construction on a new 75,000 rentable square feet medical office building ("MOB") that will be located on the campus of Texoma Medical Center, a hospital that is owned and operated by one of our subsidiaries. In connection with this MOB, a master flex lease has been executed between a wholly-owned subsidiary of ours and a Trust limited partnership that owns the MOB. Pursuant to the terms of this master flex lease, our subsidiary will master lease approximately 50% of the rentable square feet of the MOB, allocated to specific floors of the building, which could be reduced during the term if certain conditions are met, for a ten-year term at an initial minimum annual rent of $644,000. In April, 2020, a new lease was fully executed between the Trust and a third-party tenant for approximately 26,000 rentable square feet. As a result, the master flex lease commitment was reduced to 20,000 rentable square feet on a specific floor of the MOB.

During the third quarter of 2019, a joint-venture agreement between us and a non-related third-party was finalized in connection with the development of a newly constructed behavioral health care facility located in Clive, Iowa. Pursuant to the terms of the agreement, we hold a majority ownership interest in the venture and will act as manager of the facility when completed and opened. This joint-venture also entered into an agreement with the Trust whereby a wholly-owned subsidiary of the Trust will construct the 108-bed behavioral health care hospital and, upon completion and issuance of the certificate of occupancy, the joint-venture will lease the facility from the Trust pursuant to a 20-year, triple net lease with five, 10-year renewal options. Construction of the approximately 80,000 square foot hospital, for which a wholly-owned subsidiary of ours will act as project manager for an aggregate fee of approximately $750,000, is expected to be completed in late 2020 or early 2021. The approximate cost of the project is estimated at $37.5 million and the initial annual rent is estimated at approximately $2.7 million.

Other Related Party Transactions:

In December, 2010, our Board of Directors approved the Company's entering into supplemental life insurance plans and agreements on the lives of Alan B. Miller (our chief executive officer ("CEO") and his wife. As a result of these agreements, as amended in October, 2016, based on actuarial tables and other assumptions, during the life expectancies of the insureds, we would pay approximately $28 million in premiums, and certain trusts owned by our CEO, would pay approximately $9 million in premiums. Based on the projected premiums mentioned above, and assuming the policies remain in effect until the death of the insureds, we will be entitled to receive death benefit proceeds of no less than approximately $37 million representing the $28 million of aggregate premiums paid by us as well as the $9 million of aggregate premiums paid by the trusts. In connection with these policies, we will pay/we paid approximately $1.1 million, net, in premium payments during each of the 2020 and 2019 years.

In August, 2015, Marc D. Miller, our President and member of our Board of Directors, was appointed to the Board of Directors of Premier, Inc. ("Premier"), a healthcare performance improvement alliance. During 2013, we entered into a new group purchasing organization agreement ("GPO") with Premier. In conjunction with the GPO agreement, we acquired a minority interest in Premier for a nominal amount. During the fourth quarter of 2013, in connection with the completion of an initial public offering of the stock of Premier, we received cash proceeds for the sale of a portion of our ownership interest in the GPO. Also in connection with this GPO agreement, we received shares of restricted stock of Premier which vest ratably over a seven-year period (2014 through 2020), contingent upon our continued participation and minority ownership interest in the GPO. We have elected to retain a portion of the previously vested shares of Premier, the market value of which is included in other assets on our consolidated balance sheet. Based upon the closing price of Premier's stock on each respective date, the market value of our shares of Premier on which the restrictions have lapsed was $64 million as of June 30, 2020 and $70 million as of December 31, 2019. The $6 million decrease in market value of our vested Premier shares since December 31, 2019 was recorded as an unrealized loss and included in "Other (income) expense, net" on our condensed consolidated statements of income for the six-month period ended June 30, 2020.

A member of our Board of Directors and member of the Executive Committee and Finance Committee is a partner in Norton Rose Fulbright US LLP, a law firm engaged by us for a variety of legal services. The Board member and his law firm also provide personal legal services to our CEO and he acts as trustee of certain trusts for the benefit of our CEO and his family.

(3) Other Noncurrent liabilities and Redeemable/Noncontrolling Interests

Other noncurrent liabilities include the long-term portion of our professional and general liability, workers' compensation reserves, pension and deferred compensation liabilities, and liabilities incurred in connection with split-dollar life insurance agreements on the lives of our chief executive officer and his wife.

As of June 30, 2020, outside owners held noncontrolling, minority ownership interests of: (i) 20% in an acute care facility located in Washington, D.C.; (ii) approximately 11% in an acute care facility located in Texas; (iii) 20%, 30% and 20% in three behavioral health care facilities located in Pennsylvania, Ohio and Washington, respectively, and; (iv) approximately 5% in an acute care facility located in Nevada. The noncontrolling interest and redeemable noncontrolling interest balances of $73 million and $4 million, respectively, as of June 30, 2020, consist primarily of the third-party ownership interests in these hospitals.

In connection with the two behavioral health care facilities located in Pennsylvania and Ohio, the minority ownership interests of which are reflected as redeemable noncontrolling interests on our Condensed Consolidated Balance Sheet, the outside owners have "put options" to put their entire ownership interest to us at any time. If exercised, the put option requires us to purchase the minority member's interest at fair market value.

(4) Treasury

Credit Facilities and Outstanding Debt Securities:

On October 23, 2018, we entered into a Sixth Amendment (the "Sixth Amendment") to our credit agreement dated as of November 15, 2010, as amended on March 15, 2011, September 21, 2012, May 16, 2013, August 7, 2014 and June 7, 2016, among UHS, as borrower, the several banks and other financial institutions from time to time parties thereto, as lenders, JPMorgan Chase Bank, N.A., as administrative agent, and the other agents party thereto (the "Senior Credit Agreement"). The Sixth Amendment became effective on October 23, 2018.

The Sixth Amendment amended the Senior Credit Agreement to, among other things: (i) increased the aggregate amount of the revolving credit facility to $1 billion (increase of $200 million over the $800 million previous commitment); (ii) increased the aggregate amount of the tranche A term loan commitments to $2 billion (increase of approximately $290 million over the $1.71 billion of outstanding borrowings prior to the amendment), and; (iii) extended the maturity date of the revolving credit and tranche A term loan facilities to October 23, 2023 from August 7, 2019.

On October 31, 2018, we added a seven-year tranche B term loan facility in the aggregate principal amount of $500 million pursuant to the Senior Credit Agreement. The tranche B term loan matures on October 31, 2025. We used the proceeds to repay borrowings under the revolving credit facility, the Securitization (as defined below), to redeem our $300 million, 3.75% Senior Notes that were scheduled to mature in 2019 and for general corporate purposes.

As of June 30, 2020, we had no borrowings outstanding pursuant to our $1 billion revolving credit facility and we had $997 million of available borrowing capacity net of $3 million of outstanding letters of credit.

Pursuant to the terms of the Sixth Amendment, the tranche A term loan, which had $1.925 billion of borrowings outstanding as of June 30, 2020, provides for eight installment payments of $12.5 million per quarter which commenced in March of 2019 and are scheduled to continue through December of 2020. Thereafter, payments of $25 million per quarter are scheduled, commencing in March of 2021 until maturity in October of 2023, when all outstanding amounts will be due.

The tranche B term loan, which had $493 million of borrowings outstanding as of June 30, 2020, provides for installment payments of $1.25 million per quarter, which commenced on March 31, 2019 and are scheduled to continue until maturity in October of 2025, when all outstanding amounts will be due.

Borrowings under the Senior Credit Agreement bear interest at our election at either (1) the ABR rate which is defined as the rate per annum equal to the greatest of (a) the lender's prime rate, (b) the weighted average of the federal funds rate, plus 0.5% and (c) one month LIBOR rate plus 1%, in each case, plus an applicable margin based upon our consolidated leverage ratio at the end of each quarter ranging from 0.375% to 0.625% for revolving credit and term loan A borrowings and 0.75% for tranche B borrowings, or (2) the one, two, three or six month LIBOR rate (at our election), plus an applicable margin based upon our consolidated leverage ratio at the end of each quarter ranging from 1.375% to 1.625% for revolving credit and term loan A borrowings and 1.75% for the tranche B term loan. As of June 30, 2020, the applicable margins were 0.375% for ABR-based loans and 1.375% for LIBOR-based loans under the revolving credit and term loan A facilities. The revolving credit facility includes a $125 million sub-limit for letters of credit. The Senior Credit Agreement is secured by certain assets of the Company and our material subsidiaries (which generally excludes asset classes such as substantially all of the patient-related accounts receivable of our acute care hospitals, and certain real estate assets and assets held in joint-ventures with third parties) and is guaranteed by our material subsidiaries.

The Senior Credit Agreement includes a material adverse change clause that must be represented at each draw. The Senior Credit Agreement contains covenants that include a limitation on sales of assets, mergers, change of ownership, liens and indebtedness, transactions with affiliates, dividends and stock repurchases; and requires compliance with financial covenants including maximum leverage. We are in compliance with all required covenants as of June 30, 2020 and December 31, 2019.

In late April, 2018, we entered into the sixth amendment to our accounts receivable securitization program ("Securitization") dated as of October 27, 2010 with a group of conduit lenders, liquidity banks, and PNC Bank, National Association, as administrative agent, which provides for borrowings outstanding from time to time by certain of our subsidiaries in exchange for undivided security interests in their respective accounts receivable. The sixth amendment, among other things, extended the term of the Securitization program through April 26, 2021 and increased the borrowing capacity to $450 million (from $440 million previously). In July, 2020, we entered into the seventh amendment to the Securitization which temporarily waives a minimum borrowing requirement. Pursuant to the terms of our Securitization program, substantially all of the patient-related accounts receivable of our acute care hospitals ("Receivables") serve as collateral for the outstanding borrowings. We have accounted for this Securitization as borrowings. We maintain effective control over the Receivables since, pursuant to the terms of the Securitization, the Receivables are sold from certain of our subsidiaries to special purpose entities that are wholly-owned by us. The Receivables, however, are owned by the special purpose entities, can be used only to satisfy the debts of the wholly-owned special purpose entities, and thus are not available to us except through our ownership interest in the special purpose entities. The wholly-owned special purpose entities use the Receivables to collateralize the loans obtained from the group of third-party conduit lenders and liquidity banks. The group of third-party conduit lenders and liquidity banks do not have recourse to us beyond the assets of the wholly-owned special purpose entities that securitize the loans. At June 30, 2020, we had no Securitization borrowings outstanding and, pursuant to the terms and conditions of the program, we had approximately $378 million of available borrowing capacity.

As of June 30, 2020, we had combined aggregate principal of $1.1 billion from the following senior secured notes:

- $700 million aggregate principal amount of 4.75% senior secured notes due in August, 2022 ("2022 Notes") which were issued as follows:
  - $300 million aggregate principal amount issued on August 7, 2014 at par.
  - $400 million aggregate principal amount issued on June 3, 2016 at 101.5% to yield 4.35%.

- $400 million aggregate principal amount of 5.00% senior secured notes due in June, 2026 ("2026 Notes") which were issued on June 3, 2016.

Interest on the 2022 Notes is payable on February 1 and August 1 of each year until the maturity date of August 1, 2022. Interest on the 2026 Notes is payable on June 1 and December 1 until the maturity date of June 1, 2026. The 2022 Notes and 2026 Notes were offered only to qualified institutional buyers under Rule 144A and to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act of 1933, as amended (the "Securities Act"). The 2022 Notes and 2026 Notes have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

On November 26, 2018 we redeemed the $300 million aggregate principal, 3.75% Senior Notes due in 2019. The 2019 Notes were redeemed for an aggregate price equal to 100.485% of the principal amount, resulting in a premium paid of approximately $1 million, plus accrued interest to the redemption date.

At June 30, 2020, the carrying value and fair value of our debt were each approximately $3.5 billion. At December 31, 2019, the carrying value and fair value of our debt were each approximately $4.0 billion. The fair value of our debt was computed based upon quotes received from financial institutions. We consider these to be “level 2” in the fair value hierarchy as outlined in the authoritative guidance for disclosures in connection with debt instruments.

Cash Flow Hedges:

We manage our ratio of fixed and floating rate debt with the objective of achieving a mix that management believes is appropriate. To manage this risk in a cost-effective manner, we, from time to time, enter into interest rate swap agreements in which we agree to exchange various combinations of fixed and/or variable interest rates based on agreed upon notional amounts. We account for our derivative and hedging activities using the Financial Accounting Standard Board’s guidance which requires all derivative instruments, including certain derivative instruments embedded in other contracts, to be carried at fair value on the balance sheet. For derivative transactions designated as hedges, we formally document all relationships between the hedging instrument and the related hedged item, as well as its risk-management objective and strategy for undertaking each hedge transaction.

Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Cash flow hedges are accounted for by recording the fair value of the derivative instrument on the balance sheet as either an asset or liability, with a corresponding amount recorded in accumulated other comprehensive income (“AOCI”) within shareholders’ equity. Amounts are reclassified from AOCI to the income statement in the period or periods the hedged transaction affects earnings. From time to time, we use interest rate derivatives in our cash flow hedge transactions. Such derivatives are designed to be highly effective in offsetting changes in the cash flows related to the hedged liability.

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

The fair value of interest rate swap agreements approximates the amount at which they could be settled, based on estimates obtained from the counterparties. When applicable, we assess the effectiveness of our hedge instruments on a quarterly basis. Although we do not anticipate nonperformance by our counterparties to interest rate swap agreements, the counterparties expose us to credit risk in the event of nonperformance. We do not hold or issue derivative financial instruments for trading purposes.

During 2015, we entered into nine forward starting interest rate swaps whereby we paid a fixed rate on a total notional amount of $1.0 billion and received one-month LIBOR. The average fixed rate payable on these swaps, all of which matured on April 15, 2019, was 1.31%.

When applicable, we measure our interest rate swaps at fair value on a recurring basis. The fair value of our interest rate swaps is based on quotes from our counterparties. We consider those inputs to be “level 2” in the fair value hierarchy as outlined in the authoritative guidance for disclosures in connection with derivative instruments and hedging activities.

Foreign Currency Forward Exchange Contracts:

In August 2017, the FASB issued new guidance on hedge accounting (ASU 2017-12) that is intended to more closely align hedge accounting with companies’ risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. The new guidance amends the presentation and disclosure requirements, and changes how companies assess effectiveness. We adopted this guidance as of January 1, 2019 and applied to all existing hedges as of the adoption date.

We use forward exchange contracts to hedge our net investment in foreign operations against movements in exchange rates. The effective portion of the unrealized gains or losses on these contracts is recorded in foreign currency translation adjustment within accumulated other comprehensive income and remains there until either the sale or liquidation of the subsidiary. In connection with these forward exchange contracts, we recorded net cash inflows of $57 million and $5 million during the six-month periods ended June 30, 2020 and 2019, respectively.

During the fourth quarter of 2019, we identified certain cash inflows related to operating activities that were incorrectly classified as cash inflows from foreign currency exchange contracts, as included cash flows from investing activities, on our condensed

consolidated statements of cash flows for the quarterly periods in 2019. The cash flows related to our foreign currency exchange contracts were correctly classified on our consolidated statements of cash flows for the year ended December 31, 2019. We determined that these misclassifications were not material to the financial statements of any period during 2019. However, in order to improve the consistency and comparability of the financial statements, we have revised the condensed consolidated statements of cash flows for the six-month period ended June 30, 2019.

Derivatives Hedging Relationships:

The following table presents the effects of our interest rate swap agreements and our foreign currency foreign exchange contracts on our results of operations for the three and six-month periods ended June 30, 2020 and 2019 (in thousands):

	Gain/(Loss) recognized in AOCI			
	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Cash Flow Hedge relationships				
Interest rate swap agreements (a)	$ 0	$ (1,008)	$ 0	$ (3,925)
Net Investment Hedge relationships				
Foreign currency foreign exchange contracts	$ 2,989	$ 40,436	$ 43,535	$ 45,657

(a) The amount of gain reclassified out of AOCI into interest expense, net was $0 and $456,000 during the three-month periods ended June 30, 2020 and 2019, respectively, and $0 and $3.4 million during the six-month periods ended June 30, 2020 and 2019, respectively.

No other gains or losses were recognized in income related to derivatives in Subtopic 815-20.

Cash, Cash Equivalents and Restricted Cash:

Cash, cash equivalents, and restricted cash as reported in the condensed consolidated statements of cash flows are presented separately on our condensed consolidated balance sheets as follow (in thousands):

	June 30, 2020		December 31, 2019
Cash and cash equivalents	$ 539,622		$ 61,268
Restricted cash and cash equivalents (a)	44,650		44,399
Total cash, cash equivalents and restricted cash	$ 584,272	(b)	$ 105,667

(a) Restricted cash and cash equivalents is included in other assets on the accompanying consolidated balance sheet.
(b) Consists primarily of short-term cash accounts on which interest is being earned at various annual rates ranging from 0.10% to 0.65%.

(5) Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The following fair value hierarchy classifies the inputs to valuation techniques used to measure fair value into one of three levels:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These included quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity’s own assumptions.

The following tables present the assets and liabilities recorded at fair value on a recurring basis:

(in thousands)	Balance at June 30, 2020	Balance Sheet Location	Basis of Fair Value Measurement Level 1	Level 2	Level 3
Assets:					
Money market mutual funds	$ 174,200	Cash and cash equivalents	174,200		
Term Deposit	100,000	Cash and cash equivalents		100,000	
Money market mutual funds	60,870	Other assets	60,870		
Certificates of deposit	2,201	Other assets	2,201		
Available for sale securities	63,780	Other assets	63,780		
Deferred compensation assets	31,292	Other assets	31,292		
Foreign currency exchange contracts	2,187	Other current assets		2,187	
	$ 434,530		332,343	102,187	-
Liabilities:					
Deferred compensation liability	31,292	Other noncurrent liabilities	31,292		
	$ 31,292		31,292	-	-

(in thousands)	Balance at December 31, 2019	Balance Sheet Location	Basis of Fair Value Measurement Level 1	Level 2	Level 3
Assets:					
Money market mutual funds	$ 60,175	Other assets	60,175		
Certificates of deposit	2,200	Other assets	2,200		
Available for sale securities	70,478	Other assets	70,478		
Deferred compensation assets	35,510	Other assets	35,510		
Foreign currency exchange contracts	10,343	Other current assets		10,343	
	$ 178,706		168,363	10,343	-
Liabilities:					
Deferred compensation liability	$ 35,510	Other noncurrent liabilities	35,510		
	$ 35,510		35,510	-	-

The fair value of our money market mutual funds, certificates of deposit and available for sale securities are computed based upon quoted market prices in active market. The fair value of deferred compensation assets and offsetting liability are computed based on market prices in an active market held in a rabbi trust. The fair value of our interest rate swaps are based on quotes from our counter parties. The fair value of our foreign currency exchange contracts is valued using quoted forward exchange rates and spot rates at the reporting date.

(6) Commitments and Contingencies

Professional and General Liability, Workers' Compensation Liability

The vast majority of our subsidiaries are self-insured for professional and general liability exposure up to: (i) $10 million and $3 million per occurrence, respectively, effective January, 2020 (professional liability claims are also subject to an additional annual aggregate self-insured retention of $2.5 million for claims in excess of $10 million); (ii) $5 million and $3 million per occurrence, respectively, during 2019, 2018 and 2017, and; (iii) $10 million and $3 million per occurrence, respectively, prior to 2017. These subsidiaries are provided with several excess policies through commercial insurance carriers which provide for coverage in excess of the applicable per occurrence self-insured retention or underlying policy limits up to $250 million per occurrence and in the aggregate for claims incurred after 2013 and up to $200 million per occurrence and in the aggregate for claims incurred from 2011 through 2013. We remain liable for 10%, up to an annual aggregate limitation of $5 million ($8.5 million for facilities located in the U.K.), of the claims paid pursuant to the commercially insured excess coverage. In addition, from time to time based upon marketplace conditions, we may elect to purchase additional commercial coverage for certain of our facilities or businesses. Our behavioral health care facilities located in the U.K. have policies through a commercial insurance carrier located in the U.K. that provides for £10 million of professional liability coverage and £25 million of general liability coverage.

As of June 30, 2020, the total accrual for our professional and general liability claims was $250 million, of which $42 million was included in current liabilities. As of December 31, 2019, the total accrual for our professional and general liability claims was $242 million, of which $42 million was included in current liabilities.

As a result of unfavorable trends recently experienced, during the first six months of 2020, we have recorded a $20 million increase to our reserves for self-insured professional and general liability claims, which was recorded during the first quarter. Our estimated liability for self-insured professional and general liability claims is based on a number of factors including, among other things, the number of asserted claims and reported incidents, estimates of losses for these claims based on recent and historical settlement amounts, estimates of incurred but not reported claims based on historical experience, and estimates of amounts recoverable under our commercial insurance policies. While we continuously monitor these factors, our ultimate liability for professional and general liability claims could change materially from our current estimates due to inherent uncertainties involved in making this estimate. Given our significant self-insured exposure for professional and general liability claims, there can be no assurance that a sharp increase in the number and/or severity of claims asserted against us will not have a material adverse effect on our future results of operations. Although we are unable to predict whether or not our future financial statements will require updates to estimates for our prior year reserves for self-insured general and professional and workers' compensation claims, given the relatively unpredictable nature of the these potential liabilities and the factors impacting these reserves, as discussed above, it is reasonably likely that our future financial results may include material adjustments to prior period reserves.

As of June 30, 2020, the total accrual for our workers' compensation liability claims was $90 million, of which $40 million was included in current liabilities. As of December 31, 2019, the total accrual for our workers' compensation liability claims was $81 million, of which $40 million was included in current liabilities.

Property Insurance

We have commercial property insurance policies for our properties covering catastrophic losses, including windstorm damage, up to a $1 billion policy limit, subject to a per occurrence/per location deductible of $2.5 million as of June 1, 2020. Losses resulting from named windstorms are subject to deductibles between 3% and 5% of the total insurable value of the property. In addition, we have commercial property insurance policies covering catastrophic losses resulting from earthquake and flood damage, each subject to aggregated loss limits (as opposed to per occurrence losses). Commercially insured earthquake coverage for our facilities is subject to various deductibles and limitations including: (i) $500 million limitation for our facilities located in Nevada; (ii) $130 million limitation for our facilities located in California; (iii) $100 million limitation for our facilities located in fault zones within the United States; (iv) $40 million limitation for our facilities located in Puerto Rico, and; (v) $250 million limitation for many of our facilities located in other states. Our commercially insured flood coverage has a limit of $100 million annually. There is also a $10 million sublimit for one of our facilities located in Houston, Texas, and a $1 million sublimit for our facilities located in Puerto Rico. Property insurance for our behavioral health facilities located in the U.K. are provided on an all risk basis up to a £1.5 billion policy limit, with coverage caps per location, that includes coverage for real and personal property as well as business interruption losses.

Legal Proceedings

We operate in a highly regulated and litigious industry which subjects us to various claims and lawsuits in the ordinary course of business as well as regulatory proceedings and government investigations. These claims or suits include claims for damages for personal injuries, medical malpractice, commercial/contractual disputes, wrongful restriction of, or interference with, physicians' staff privileges, and employment related claims. In addition, health care companies are subject to investigations and/or actions by various state and federal governmental agencies or those bringing claims on their behalf. Government action has increased with respect to investigations and/or allegations against healthcare providers concerning possible violations of fraud and abuse and false claims statutes as well as compliance with clinical and operational regulations. Currently, and from time to time, we and some of our facilities

are subjected to inquiries in the form of subpoenas, Civil Investigative Demands, audits and other document requests from various federal and state agencies. These inquiries can lead to notices and/or actions including repayment obligations from state and federal government agencies associated with potential non-compliance with laws and regulations. Further, the federal False Claims Act allows private individuals to bring lawsuits (qui tam actions) against healthcare providers that submit claims for payments to the government. Various states have also adopted similar statutes. When such a claim is filed, the government will investigate the matter and decide if they are going to intervene in the pending case. These qui tam lawsuits are placed under seal by the court to comply with the False Claims Act's requirements. If the government chooses not to intervene, the private individual(s) can proceed independently on behalf of the government. Health care providers that are found to violate the False Claims Act may be subject to substantial monetary fines/penalties as well as face potential exclusion from participating in government health care programs or be required to comply with Corporate Integrity Agreements as a condition of a settlement of a False Claims Act matter. In September 2014, the Criminal Division of the Department of Justice ("DOJ") announced that all qui tam cases will be shared with their Division to determine if a parallel criminal investigation should be opened. The DOJ has also announced an intention to pursue civil and criminal actions against individuals within a company as well as the corporate entity or entities. In addition, health care facilities are subject to monitoring by state and federal surveyors to ensure compliance with program Conditions of Participation. In the event a facility is found to be out of compliance with a Condition of Participation and unable to remedy the alleged deficiency(s), the facility faces termination from the Medicare and Medicaid programs or compliance with a System Improvement Agreement to remedy deficiencies and ensure compliance.

The laws and regulations governing the healthcare industry are complex covering, among other things, government healthcare participation requirements, licensure, certification and accreditation, privacy of patient information, reimbursement for patient services as well as fraud and abuse compliance. These laws and regulations are constantly evolving and expanding. Further, the Legislation has added additional obligations on healthcare providers to report and refund overpayments by government healthcare programs and authorizes the suspension of Medicare and Medicaid payments "pending an investigation of a credible allegation of fraud." We monitor our business and have developed an ethics and compliance program with respect to these complex laws, rules and regulations. Although we believe our policies, procedures and practices comply with government regulations, there is no assurance that we will not be faced with the sanctions referenced above which include fines, penalties and/or substantial damages, repayment obligations, payment suspensions, licensure revocation, and expulsion from government healthcare programs. Even if we were to ultimately prevail in any action brought against us or our facilities or in responding to any inquiry, such action or inquiry could have a material adverse effect on us.

Certain legal matters are described below:

Government Investigations - UHS Behavioral Health

As previously announced in July, 2019, Universal Health Services, Inc. ("we", the "Company") had reached an agreement in principle with the Department of Justice's Civil Division, and various states' attorneys general offices, to resolve the civil aspects of the government's investigation of our behavioral health care facilities for $127 million subject to requisite approvals and preparation and execution of definitive settlement and related agreements.

On July 6, 2020, and as previously disclosed on Form 8-K as filed on July 10, 2020, pursuant to terms and amounts consistent with the previously announced agreement in principle, definitive settlement agreements ("Settlement Agreements") were fully executed thereby resolving this matter.

The Company denies the allegations raised in this matter and the settlement does not constitute an admission of facts or liability by the Company or any of its subsidiary behavioral health facilities.

Pursuant to the terms of the settlement agreements, on July 9, 2020, we made net aggregate payments of approximately $117.3 million, before accrued interest and related fees, costs and individual claims due to or on behalf of third-parties, consisting of the following:

- $88.1 million pursuant to the terms of the agreement with the Department of Justice ("DOJ") and Office of Inspector General for the United States Department of Health and Human Services ("OIG");
- $28.9 million to various individual states that participated in the settlement;
- $10.0 million in connection with the settlement of the *U.S. ex rel Escobar v. Universal Health Services, Inc. et.al. and U.S. et. al. ex rel Correa et. al. v. Universal Health Services, Inc. et. al.* matters, False Claims Act cases filed against Universal Health Services, Inc., UHS of Delaware, Inc. and HRI Clinics, Inc. d/b/a Arbour Counseling Services in U.S. District Court for the District of Massachusetts;
- less approximately $9.7 million of aggregate funds previously withheld from us in connection with the previously disclosed River Point Behavioral Health payment suspension and a suspension of payments to the Lawrence campus of Arbour Counseling Services associated with the Escobar matter. These previously withheld amounts are credited against the amounts due from us under the Settlement Agreements. As a condition of the settlement, the payment suspension at River Point will be lifted. The Lawrence campus of Arbour Counseling was previously closed by us.

In addition, we have also reached agreement in principle resolving all claims for attorneys' fees and costs of the relators, as well as any individual claims of the relators, amounting to approximately $6.0 million in the aggregate, pending finalization and execution of the remaining settlement agreements with the relators.

We also paid accrued interest on the settlement amounts for certain specified periods of approximately two months or less at annual rates of either 2.125% or 1.250% which amounted to approximately $230,000 in the aggregate.

We had previously established a pre-tax reserve in connection with the settlements and matters discussed above, which includes related fees and costs due to or on behalf of third-parties, which amounted to approximately $134 million at both March 31, 2020 and December 31, 2019. The final aggregate settlement amounts, together with accrued interest and related fees and costs, did not differ materially from the previously established reserves.

Under the settlement agreements, the United States and the participating states agree to release the Company and its behavioral health subsidiaries from any civil or administrative monetary liability arising from the Covered Conduct as specified in the Agreements. Additionally, under the settlement agreement, the United States, participating states and the relators agreed to dismiss the civil actions filed by the relators under the *qui tam* provisions of the federal False Claims Act, and the OIG agrees, conditioned upon the Company's full payment of the settlement payment, and in consideration of the Company's obligations under the Corporate Integrity Agreement (as described below), to release its permissive exclusion rights and refrain from instituting any administrative action seeking to exclude the Company or any Company behavioral health subsidiaries from participating in Medicare, Medicaid or other Federal health care programs as a result of the Covered Conduct. The Settlement Agreements contain other terms and conditions and the foregoing description of the Settlement Agreements are qualified in its entirety by reference to the full text of those agreements, which were attached as Exhibit 10.1 and 10.2 to our Form 8-K as filed on July 10, 2020 and incorporated herein by reference.

In connection with the resolution of this matter, and in exchange for the OIG's agreement not to exclude the Company and its behavioral health subsidiaries from participating in the federal health care programs, the Company entered into a five-year corporate integrity agreement (the "Corporate Integrity Agreement") with the OIG. The Corporate Integrity Agreement imposes compliance, monitoring, reporting, certification, oversight, screening and training obligations on the Company and its behavioral health facilities, certain of which have previously been implemented. The Corporate Integrity Agreement contains other terms and conditions and the foregoing description of the Corporate Integrity Agreement is qualified in its entirety by reference to the full text of that agreement, which was attached as Exhibit 10.3 to our Form 8-K as filed on July 10, 2020 and incorporated herein by reference.

DOJ investigation of Turning Point Hospital.

During the fourth quarter of 2018, we were notified that the DOJ Civil Division in conjunction with the U.S. Attorney's Office for the Northern District of Georgia and the Georgia Attorney General's Office opened an investigation of Turning Point Hospital in Moultrie, GA. The DOJ Civil Division advised us that they were primarily investigating transportation and housing financial assistance provided to patients receiving treatment at the facility. The DOJ issued a civil investigative demand to the facility requesting various documents and other information. In September, 2019, we reached a settlement in principle of this matter pending negotiation, finalization and execution of definitive settlement agreements. The settlement agreement was finalized and executed in July, 2020. As of June 30, 2020 and December 31, 2019, our financial statements included an estimated reserve in connection with the potential settlement of this matter, which did not have material impact on our results of operations and financial condition.

Litigation:

Shareholder Class Action

In December 2016 a purported shareholder class action lawsuit was filed in U.S. District Court for the Central District of California against UHS and certain UHS officers alleging violations of the federal securities laws. The case was originally filed as Heed v. Universal Health Services, Inc. et. al. (Case No. 2:16-CV-09499-PSG-JC). The court subsequently appointed Teamsters Local 456 Pension Fund and Teamsters Local 456 Annuity Fund to serve as lead plaintiffs. The case has been transferred to the U.S. District Court for the Eastern District of Pennsylvania and the style of the case has been changed to Teamsters Local 456 Pension Fund, et. al. v. Universal Health Services, Inc. et. al. (Case No. 2:17-CV-02817-LS). In September, 2017, Teamsters Local 456 Pension Fund filed an amended complaint. The amended class action complaint alleges violations of federal securities laws relating to disclosures made in public filings associated with alleged practices and operations at our behavioral health facilities. Plaintiffs seek monetary damages for shareholders during the defined class period as a result of the decrease in share price following various public disclosures or reports. In December, 2017, we filed a motion to dismiss the amended complaint. In August, 2019, the court granted our motion to dismiss. Plaintiffs subsequently filed a motion with the court seeking leave to file a second amended complaint. In April, 2020, the court denied Plaintiffs' motion to file a second amended complaint. Plaintiffs have filed an appeal with the 3d Circuit Court of Appeals. We deny liability and intend to defend ourselves vigorously. At this time, we are uncertain as to potential liability or financial exposure, if any, which may be associated with this matter.

Shareholder Derivative Cases

In March 2017, a shareholder derivative suit was filed by plaintiff David Heed in the Court of Common Pleas of Philadelphia County. A notice of removal to the United States District Court for the Eastern District of Pennsylvania was filed (Case No. 2:17-cv-01476-

LS). Plaintiff filed a motion to remand. In December 2017, the Court denied plaintiff's motion to remand and retained the case in federal court. In May, June and July 2017, additional shareholder derivative suits were filed in the United States District Court for the Eastern District of Pennsylvania. The plaintiffs in those cases are: Central Laborers' Pension Fund (Case No. 17-cv-02187-LS); Firemen's Retirement System of St. Louis (Case No. 17—cv-02317-LS); Waterford Township Police & Fire Retirement System (Case No. 17-cv-02595-LS); and Amalgamated Bank Longview Funds (Case No. 17-cv-03404-LS). The Fireman's Retirement System case has since been voluntarily dismissed. The federal court consolidated all of the cases pending in the Eastern District of Pennsylvania and appointed co-lead plaintiffs and co-lead counsel. Lead Plaintiffs filed a consolidated, amended complaint. We filed a motion to dismiss the amended complaint. In addition, a shareholder derivative case was filed in Chancery Court in Delaware by the Delaware County Employees' Retirement Fund (Case No. 2017-0475-JTL). In December 2017, the Chancery Court stayed this case pending resolution of other contemporaneous matters. Each of these cases have named certain current and former members of the Board of Directors individually and certain officers of Universal Health Services, Inc. as defendants. UHS has also been named as a nominal defendant in these cases. The derivative cases make substantially similar allegations and claims as the shareholder class action relating to practices at our behavioral health facilities and board and corporate oversight of these facilities as well as claims relating to the stock trading by the individual defendants and company repurchase of shares during the relevant time period. The cases make claims of breaches of fiduciary duties by the named board members and officers; alleged violations of federal securities laws; and common law causes of action against the individual defendants including unjust enrichment, corporate waste, abuse of control, constructive fraud and gross mismanagement. The cases seek monetary damages allegedly incurred by the company; restitution and disgorgement of profits, benefits and other compensation from the individual defendants and various forms of equitable relief relating to corporate governance matters. In August, 2019, the court granted our motion to dismiss. Plaintiffs subsequently filed a motion with the court seeking leave to file a second amended complaint. In April, 2020, the court denied Plaintiffs motion to file a second amended complaint. Plaintiffs have filed an appeal with the 3d Circuit Court of Appeals. The defendants deny liability and intend to defend these cases vigorously. At this time, we are uncertain as to potential liability or financial exposure, if any, which may be associated with these matters.

The George Washington University v. Universal Health Services, Inc., et. al.

In December 2019, The George Washington University ("University") filed a lawsuit in the Superior Court for the District of Columbia against Universal Health Services, Inc. as well as certain subsidiaries and individuals associated with the ownership and management of The George Washington University Hospital ("GW Hospital") in Washington, D.C. (case No. 2019 CA 008019 B). The lawsuit claims that UHS failed to provide sufficient financial compensation to the University under the terms of various agreements entered into in 1997 between the University and UHS for the joint venture ownership of GW Hospital. The lawsuit includes claims for breach of contract, breach of fiduciary duty, and unjust enrichment. We deny liability and intend to defend this matter vigorously. We filed a motion to dismiss the complaint. In June, 2020, the Court granted the motion in part dismissing the majority of the claims against UHS. At this time, we are uncertain as to potential liability or financial exposure, if any, which may be associated with this matter.

Disproportionate Share Hospital Payment Matter:

In late September, 2015, many hospitals in Pennsylvania, including certain of our behavioral health care hospitals located in the state, received letters from the Pennsylvania Department of Human Services (the "Department") demanding repayment of allegedly excess Medicaid Disproportionate Share Hospital payments ("DSH"), primarily consisting of managed care payments characterized as DSH payments, for the federal fiscal year ("FFY") 2011 amounting to approximately $4 million in the aggregate. Since that time, certain of our behavioral health care hospitals in Pennsylvania have received similar requests for repayment for alleged DSH overpayments for FFYs 2012 through 2015. For FFY 2012, the claimed overpayment amounts to approximately $4 million. For FY 2013, FY 2014 and FY 2015 the initial claimed overpayments and attempted recoupment by the Department were approximately $7 million, $8 million and $7 million, respectively. The Department has agreed to a change in methodology which, upon confirmation of the underlying data being accepted by the Department, could reduce the initial claimed overpayments for FY 2013, FY 2014 and FY 2015 to approximately $2 million, $2 million and $3 million, respectively. We filed administrative appeals for all of our facilities contesting the recoupment efforts for FFYs 2011 through 2015 as we believe the Department's calculation methodology is inaccurate and conflicts with applicable federal and state laws and regulations. The Department has agreed to postpone the recoupment of the state's share for FY 2011 to 2013 until all hospital appeals are resolved but started recoupment of the federal share. For FY 2014 and FY 2015, the Department has initiated the recoupment of the alleged overpayments. Starting in FFY 2016, the first full fiscal year after the January 1, 2015 effective date of Medicaid expansion in Pennsylvania, the Department no longer characterized managed care payments received by the hospitals as DSH payments. We can provide no assurance that we will ultimately be successful in our legal and administrative appeals related to the Department's repayment demands. If our legal and administrative appeals are unsuccessful, our future consolidated results of operations and financial condition could be adversely impacted by these repayments.

Other Matters:

Various other suits, claims and investigations, including government subpoenas, arising against, or issued to, us are pending and additional such matters may arise in the future. Management will consider additional disclosure from time to time to the extent it believes such matters may be or become material. The outcome of any current or future litigation or governmental or internal investigations, including the matters described above, cannot be accurately predicted, nor can we predict any resulting penalties, fines

or other sanctions that may be imposed at the discretion of federal or state regulatory authorities. We record accruals for such contingencies to the extent that we conclude it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. No estimate of the possible loss or range of loss in excess of amounts accrued, if any, can be made at this time regarding the matters described above or that are otherwise pending because the inherently unpredictable nature of legal proceedings may be exacerbated by various factors, including, but not limited to: (i) the damages sought in the proceedings are unsubstantiated or indeterminate; (ii) discovery is not complete; (iii) the matter is in its early stages; (iv) the matters present legal uncertainties; (v) there are significant facts in dispute; (vi) there are a large number of parties, or; (vii) there is a wide range of potential outcomes. It is possible that the outcome of these matters could have a material adverse impact on our future results of operations, financial position, cash flows and, potentially, our reputation.

(7) Segment Reporting

Our reportable operating segments consist of acute care hospital services and behavioral health care services. The “Other” segment column below includes centralized services including, but not limited to, information technology, purchasing, reimbursement, accounting and finance, taxation, legal, advertising and design and construction. The chief operating decision making group for our acute care services and behavioral health care services is comprised of our Chief Executive Officer, the President and the Presidents of each operating segment. The Presidents for each operating segment also manage the profitability of each respective segment’s various facilities. The operating segments are managed separately because each operating segment represents a business unit that offers different types of healthcare services or operates in different healthcare environments. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies included in our Annual Report on Form 10-K for the year ended December 31, 2019. The corporate overhead allocations, as reflected below, are utilized for internal reporting purposes and are comprised of each period’s projected corporate-level operating expenses (excluding interest expense). The overhead expenses are captured and allocated directly to each segment to the extent possible, and overhead expenses incurred on behalf of both segments are captured and allocated to each segment based upon each segment’s respective percentage of total operating expenses.

	Three months ended June 30, 2020			
	Acute Care Hospital Services	Behavioral Health Services (a)	Other	Total Consolidated
	(Amounts in thousands)			
Gross inpatient revenues	$ 6,736,777	$ 2,285,359	$ -	$ 9,022,136
Gross outpatient revenues	$ 3,394,680	$ 216,174	$ -	$ 3,610,854
Total net revenues	$ 1,467,506	$ 1,259,123	$ 3,125	$ 2,729,754
Income/(loss) before allocation of corporate overhead and income taxes	$ 182,996	$ 256,766	$ (104,104)	$ 335,658
Allocation of corporate overhead	$ (55,983)	$ (42,750)	$ 98,733	$ 0
Income/(loss) after allocation of corporate overhead and before income taxes	$ 127,013	$ 214,016	$ (5,371)	$ 335,658
Total assets as of June 30, 2020	$ 4,467,698	$ 6,819,694	$ 861,107	$ 12,148,499

	Six months ended June 30, 2020			
	Acute Care Hospital Services	Behavioral Health Services (a)	Other	Total Consolidated
	(Amounts in thousands)			
Gross inpatient revenues	$ 14,558,249	$ 4,810,898	$ 0	$ 19,369,147
Gross outpatient revenues	$ 8,076,421	$ 475,913	$ 0	$ 8,552,334
Total net revenues	$ 2,988,555	$ 2,565,232	$ 5,634	$ 5,559,421
Income/(loss) before allocation of corporate overhead and income taxes	$ 286,533	$ 494,449	$ (254,541)	$ 526,441
Allocation of corporate overhead	$ (111,956)	$ (85,480)	$ 197,436	$ 0
Income/(loss) after allocation of corporate overhead and before income taxes	$ 174,577	$ 408,969	$ (57,105)	$ 526,441
Total assets as of June 30, 2020	$ 4,467,698	$ 6,819,694	$ 861,107	$ 12,148,499

	Three months ended June 30, 2019			
	Acute Care Hospital Services	Behavioral Health Services (a)	Other	Total Consolidated
	(Amounts in thousands)			
Gross inpatient revenues	$ 7,051,925	$ 2,547,626	$ 0	$ 9,599,551
Gross outpatient revenues	$ 4,402,308	$ 268,693	$ 0	$ 4,671,001
Total net revenues	$ 1,531,709	$ 1,320,241	$ 3,218	$ 2,855,168
Income/(loss) before allocation of corporate overhead and income taxes	$ 188,157	$ 265,986	$ (143,335)	$ 310,808
Allocation of corporate overhead	$ (57,528)	$ (41,638)	$ 99,166	$ 0
Income/(loss) after allocation of corporate overhead and before income taxes	$ 130,629	$ 224,348	$ (44,169)	$ 310,808
Total assets as of June 30, 2019	$ 4,413,509	$ 6,933,825	$ 405,316	$ 11,752,650

	Six months ended June 30, 2019			
	Acute Care Hospital Services	Behavioral Health Services (a)	Other	Total Consolidated
	(Amounts in thousands)			
Gross inpatient revenues	$ 14,215,639	$ 5,031,625	$ 0	$ 19,247,264
Gross outpatient revenues	$ 8,659,922	$ 535,239	$ 0	$ 9,195,161
Total net revenues	$ 3,046,553	$ 2,606,624	$ 6,382	$ 5,659,559
Income/(loss) before allocation of corporate overhead and income taxes	$ 380,370	$ 510,154	$ (283,420)	$ 607,104
Allocation of corporate overhead	$ (115,028)	$ (83,285)	$ 198,313	$ 0
Income/(loss) after allocation of corporate overhead and before income taxes	$ 265,342	$ 426,869	$ (85,107)	$ 607,104
Total assets as of June 30, 2019	$ 4,413,509	$ 6,933,825	$ 405,316	$ 11,752,650

(a) Includes net revenues generated from our behavioral health care facilities located in the U.K. amounting to approximately $136 million and $144 million for the three-month periods ended June 30, 2020 and 2019, respectively, and approximately $273 million and $281 million for the six-month periods ended June 30, 2020 and 2019, respectively. Total assets at our U.K. behavioral health care facilities were approximately $1.192 billion and $1.217 billion as of June 30, 2020 and 2019, respectively.

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

Basic earnings per share are based on the weighted average number of common shares outstanding during the period. Diluted earnings per share are based on the weighted average number of common shares outstanding during the period 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 (in thousands, except per share data):

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Basic and Diluted:				
Net income attributable to UHS	$ 251,929	$ 238,320	$ 393,966	$ 472,488
Less: Net income attributable to unvested restricted share grants	(824)	(656)	(1,197)	(1,171)
Net income attributable to UHS – basic and diluted	$ 251,105	$ 237,664	$ 392,769	$ 471,317
Weighted average number of common shares - basic	84,632	89,136	85,422	89,956
Net effect of dilutive stock options and grants based on the treasury stock method	427	99	335	145
Weighted average number of common shares and equivalents - diluted	85,059	89,235	85,757	90,101
Earnings per basic share attributable to UHS:	$ 2.97	$ 2.67	$ 4.60	$ 5.24
Earnings per diluted share attributable to UHS:	$ 2.95	$ 2.66	$ 4.58	$ 5.23

The "Net effect of dilutive stock options and grants based on the treasury stock method", for all periods presented above, excludes certain outstanding stock options applicable to each period since the effect would have been anti-dilutive. The excluded weighted-average stock options totaled 7.1 million for the three months ended June 30, 2020 and 6.5 million for the six months ended June 30, 2020. The excluded weighted-average stock options totaled 8.5 million for the three months ended June 30, 2019 and 7.8 million for the six months ended June 30, 2019. All classes of our common stock have the same dividend rights.

The decrease in our basic and diluted weighted number of common shares outstanding for the three and six months ended June 30, 2020, as compared to the comparable prior year three and six months, was due primarily to the impact of shares repurchased by us since January 1, 2019.

Stock-Based Compensation:

During the three-month periods ended June 30, 2020 and 2019, pre-tax compensation cost of $13.2 million and $14.7 million, respectively, was recognized related to outstanding stock options. During the six-month periods ended June 30, 2020 and 2019, pre-tax compensation costs of $28.6 million and $30.5 million, respectively, was recognized related to outstanding stock options. In addition, during the three-month periods ended June 30, 2020 and 2019, pre-tax compensation cost of approximately $2.4 million and $2.1 million (net of cancellations), respectively, was recognized related to restricted stock. During the six-months periods ended June 30, 2020 and 2019, pre-tax compensation costs of approximately $4.7 million and $3.7 million (net of cancellations), respectively, was recognized related to restricted stock. As of June 30, 2020 there was approximately $128.1 million of unrecognized compensation cost related to unvested options and restricted stock which is expected to be recognized over the remaining weighted average vesting period of 2.6 years. There were 2,545,966 stock options granted during the first six months of 2020 with a weighted-average grant date fair value of $14.25 per share. There were 125,467 shares of restricted shares granted during the first six months of 2020 with a weighted-average grant date fair value of $68.06 per share.

The expense associated with stock-based compensation arrangements is a non-cash charge. In the Condensed Consolidated Statements of Cash Flows, stock-based compensation expense is an adjustment to reconcile net income to cash provided by operating activities and aggregated to $34.0 million and $34.7 million during the six month periods ended June 30, 2020 and 2019, respectively.

(9) Dispositions and acquisitions

Six-month period ended June 30, 2020:

Acquisitions:

During the first six months of 2020, we spent $1 million on the acquisition of businesses and property.

Divestitures:

During the first six months of 2020, we received $6 million from the sale of assets and businesses.

Six-month period ended June 30, 2019:

Acquisitions:

During the first six months of 2019, there were no acquisitions.

Divestitures:

During the first six months of 2019, there were no divestitures.

(10) Dividends

We declared and paid dividends of $17.3 million, or $.20 per share, during the first quarter of 2020. As part of our various COVID-19 initiatives, we have suspended declaration and payments of quarterly dividends. We declared and paid dividends of $8.9 million, or $.10 per share, during the second quarter of 2019 and declared and paid dividends of $18.0 million during the six-month period ended June 30, 2019 .

(11) Income Taxes

Our effective income tax rates were 23.6% and 22.4% during the three-month periods ended June 30, 2020, and 2019, respectively, and 23.8% and 21.2% during the six-month periods ended June 30, 2020, and 2019, respectively. The increase in the effective tax rate during the three-month period ended June 30, 2020, as compared to the comparable quarter of 2019, was primarily due to a $4 million increase resulting from a favorable adjustment to the income tax provision related to the effects of a change in state tax law enacted during the second quarter of 2019. The increase in the effective tax rate during the six-month period ended June 30, 2020, compared with the same period in 2019, was primarily due to a $12 million unfavorable change in the tax benefit from employee share-based payments and a $4 million increase resulting from a favorable adjustment to the income tax provision related to the effects of a change in state tax law enacted during the second quarter of 2019, which increased our provision for income taxes by $1 million during the first six months of 2020 as compared to a $15 million tax benefit during the first six months of 2019.

The global intangible low-taxed income (“GILTI”) provisions from the TCJA-17 require the inclusion of the earnings of certain foreign subsidiaries in excess of an acceptable rate of return on certain assets of the respective subsidiaries in our U.S. tax return for tax years beginning after December 31, 2017. An accounting policy election was made during 2018 to treat taxes related to GILTI as a period cost when the tax is incurred. We recorded a GILTI tax provision of zero and less than $1 million for the six months ended June 30, 2020 and 2019, respectfully.

As of January 1, 2020, our unrecognized tax benefits were approximately $2 million. The amount, if recognized, that would favorably affect the effective tax rate is approximately $2 million. During the six months ended June 30, 2020, changes to the estimated liabilities for uncertain tax positions (including accrued interest) relating to tax positions taken during prior and current periods did not have a material impact on our financial statements.

We recognize accrued interest and penalties associated with uncertain tax positions as part of the tax provision. As of June 30, 2020, we have less than $1 million of accrued interest and penalties. The U.S. federal statute of limitations remains open for 2016 and subsequent years. Foreign and U.S. state and local jurisdictions have statutes of limitations generally ranging from 3 to 4 years. The statute of limitations on certain jurisdictions could expire within the next twelve months. It is reasonably possible that the amount of uncertain tax benefits will change during the next 12 months, however, it is anticipated that any such change, if it were to occur, would not have a material impact on our results of operations.

We operate in multiple jurisdictions with varying tax laws. We are subject to audits by any of these taxing authorities. Our tax returns have been examined by the Internal Revenue Service (“IRS”) through the year ended December 31, 2006. We believe that adequate accruals have been provided for federal, foreign and state taxes.

(12) Revenue

The company recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Or estimate for amounts not expected to be collected based on historical experience will continue to be recognized as a reduction to net revenue. However, subsequent changes in estimate of collectability due to a change in the financial status of a payer, for example a bankruptcy, will be recognized as bad debt expense in operating charges.

The performance obligation is separately identifiable from other promises in the customer contract. As the performance obligations are met (i.e.: room, board, ancillary services, level of care), revenue is recognized based upon allocated transaction price. The transaction

price is allocated to separate performance obligations based upon the relative standalone selling price. In instances where we determine there are multiple performance obligations across multiple months, the transaction price will be allocated by applying an estimated implicit and explicit rate to gross charges based on the separate performance obligations.

In assessing collectability, we have elected the portfolio approach. This portfolio approach is being used as we have large volume of similar contracts with similar classes of customers. We reasonably expect that the effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately. Management's judgment to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. As a result, aggregating all of the contracts (which are at the patient level) by the particular payer or group of payers, will result in the recognition of the same amount of revenue as applying the analysis at the individual patient level.

We group our revenues into categories based on payment behaviors. Each component has its own reimbursement structure which allows us to disaggregate the revenue into categories that share the nature and timing of payments. The other patient revenue consists primarily of self-pay, government-funded non-Medicaid, and other.

The following table disaggregates our revenue by major source for the three and six month periods ended June 30, 2020 and 2019 (in thousands):

	For the three months ended June 30, 2020							
	Acute Care		Behavioral Health		Other		Total	
Medicare	$ 264,310	18%	$ 106,571	8%			$ 370,881	14%
Managed Medicare	182,771	12%	59,979	5%			242,750	9%
Medicaid	131,452	9%	154,090	12%			285,542	10%
Managed Medicaid	108,336	7%	280,865	22%			389,201	14%
Managed Care (HMO and PPOs)	432,695	29%	293,124	23%			725,819	27%
UK Revenue	0	0%	136,622	11%			136,622	5%
Other patient revenue and adjustments, net	78,196	5%	121,135	10%			199,331	7%
Other non-patient revenue (a)	269,746	18%	106,737	8%	3,125		379,608	14%
Total Net Revenue	$ 1,467,506	100%	$ 1,259,123	100%	$ 3,125		2,729,754	100%

	For the six months ended June 30, 2020							
	Acute Care		Behavioral Health		Other		Total	
Medicare	$ 590,335	20%	$ 226,188	9%			$ 816,523	15%
Managed Medicare	404,762	14%	119,217	5%			523,979	9%
Medicaid	259,411	9%	329,108	13%			588,519	11%
Managed Medicaid	231,791	8%	583,422	23%			815,213	15%
Managed Care (HMO and PPOs)	973,432	33%	633,811	25%			1,607,243	29%
UK Revenue	0	0%	273,472	11%			273,472	5%
Other patient revenue and adjustments, net	142,795	5%	244,195	10%			386,990	7%
Other non-patient revenue (a)	386,029	13%	155,819	6%	5,634		547,482	10%
Total Net Revenue	$ 2,988,555	100%	$ 2,565,232	100%	$ 5,634		5,559,421	100%

	For the three months ended June 30, 2019							
	Acute Care		Behavioral Health		Other		Total	
Medicare	$ 319,060	21%	$ 139,248	11%			$ 458,308	16%
Managed Medicare	211,660	14%	54,152	4%			265,812	9%
Medicaid	138,682	9%	183,563	14%			322,245	11%
Managed Medicaid	145,970	10%	275,252	21%			421,222	15%
Managed Care (HMO and PPOs)	566,165	37%	346,717	26%			912,882	32%
UK Revenue	0	0%	143,800	11%			143,800	5%
Other patient revenue and adjustments, net	36,161	2%	126,903	10%			163,064	6%
Other non-patient revenue	114,011	7%	50,606	4%	3,218		167,835	6%
Total Net Revenue	$ 1,531,709	100%	$ 1,320,241	100%	$ 3,218		2,855,168	100%

	For the six months ended June 30, 2019							
	Acute Care		Behavioral Health		Other		Total	
Medicare	$ 654,969	21%	$ 276,704	11%			$ 931,673	16%
Managed Medicare	420,763	14%	106,411	4%			527,174	9%
Medicaid	243,192	8%	356,479	14%			599,671	11%
Managed Medicaid	279,701	9%	542,525	21%			822,226	15%
Managed Care (HMO and PPOs)	1,136,548	37%	694,599	27%			1,831,147	32%
UK Revenue	0	0%	280,502	11%			280,502	5%
Other patient revenue and adjustments, net	88,044	3%	250,381	10%			338,425	6%
Other non-patient revenue	223,336	7%	99,023	4%	6,382		328,741	6%
Total Net Revenue	$ 3,046,553	100%	$ 2,606,624	100%	$ 6,382		5,659,559	100%

(a) Includes $157 million in Acute Care and $61 million in Behavioral Health of governmental stimulus program revenues in each of the three and six-months periods ended June 30, 2020.

(13) Lease Accounting

Our operating leases are primarily for real estate, including certain acute care facilities, off-campus outpatient facilities, medical office buildings, and corporate and other administrative offices. Our real estate lease agreements typically have initial terms of five to 10 years. These real estate leases may include one or more options to renew, with renewals that can extend the lease term from five to 10 years. The exercise of lease renewal options is at our sole discretion. When determining the lease term, we included options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

Three of our hospital facilities are held under operating leases with Universal Health Realty Income Trust with two hospital terms expiring in 2021 and the third expiring in 2026 (see Note 2 for additional disclosure). We are also the lessee of the real property of certain facilities.

Supplemental cash flow information related to leases for the six month periods ended June 30, 2020 and 2019 are as follows (in thousands):

	Six months ended June 30,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 56,102	$ 52,036
Operating cash flows from finance leases	$ 966	$ 1,108
Financing cash flows from finance leases	$ 1,267	$ 907
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 37,780	$ 359,329

Included in the $359 million of right-of-use assets obtained in exchange for operating lease obligations is $8.9 million new operating leases entered into during the six month period ended June 30, 2019.

(14) Recent Accounting Standards

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses," which introduced new guidance for an approach based on expected losses to estimate credit losses on certain types of financial instruments. Instruments in scope include loans, held-to-maturity debt securities, and net investments in leases as well as reinsurance and trade receivables. In November 2018, the FASB issued ASU 2018-19, which clarifies that operating lease receivables are outside the scope of the new standard. The standard will be effective for us in fiscal years beginning after December 15, 2019. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In January, 2017, the FASB issued ASU No. 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment” (“ASU 2017-04”), which removes the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for the annual and interim periods beginning January 1, 2020 with early adoption permitted, and applied prospectively. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles- Goodwill and Other- Internal Use Software (Topic 350): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract, ("ASU 2018-15"), which requires customers in a cloud computing arrangement (i.e., hosting arrangement) that is a service contract to follow the internal use software guidance in ASC 350-40 to determine which implementation costs to capitalize or expense. ASU 2018-15 was effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The adoption of this guidance did not have a material impact on our consolidated financial statements.

From time to time, new accounting guidance is issued by the FASB or other standard setting bodies that is adopted by the Company as of the effective date or, in some cases where early adoption is permitted, in advance of the effective date. The Company has assessed the recently issued guidance that is not yet effective and, unless otherwise indicated above, believes the new guidance will not have a material impact on our results of operations, cash flows or financial position.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Our principal business is owning and operating, through our subsidiaries, acute care hospitals and outpatient facilities and behavioral health care facilities.

As of June 30, 2020, we owned and/or operated 356 inpatient facilities and 41 outpatient and other facilities including the following located in 37 states, Washington, D.C., the United Kingdom and Puerto Rico:

Acute care facilities located in the U.S.:

- 26 inpatient acute care hospitals;
- 14 free-standing emergency departments, and;
- 6 outpatient centers & 1 surgical hospital.

Behavioral health care facilities (330 inpatient facilities and 20 outpatient facilities):

Located in the U.S.:

- 183 inpatient behavioral health care facilities, and;
- 18 outpatient behavioral health care facilities.

Located in the U.K.:

- 144 inpatient behavioral health care facilities, and;
- 2 outpatient behavioral health care facilities.

Located in Puerto Rico:

- 3 inpatient behavioral health care facilities.

As a percentage of our consolidated net revenues, net revenues from our acute care hospitals, outpatient facilities and commercial health insurer accounted for 54% during each of the three and six-month periods ended June 30, 2020 and 2019. Net revenues from our behavioral health care facilities and commercial health insurer accounted for 46% of our consolidated net revenues during each of the three and six-month periods ended June 30, 2020 and 2019.

Our behavioral health care facilities located in the U.K. generated net revenues of approximately $136 million and $144 million during the three-month periods ended June 30, 2020 and 2019, respectively, and $273 million and $281 million during the six-month periods ended June 30, 2020 and 2019, respectively. Total assets at our U.K. behavioral health care facilities were approximately $1.192 billion as of June 30, 2020 and $1.270 billion as of December 31, 2019.

Services provided by our hospitals include general and specialty surgery, internal medicine, obstetrics, emergency room care, radiology, oncology, diagnostic care, coronary care, pediatric services, pharmacy services and/or behavioral health services. We provide capital resources as well as a variety of management services to our facilities, including central purchasing, information services, finance and control systems, facilities planning, physician recruitment services, administrative personnel management, marketing and public relations.

Forward-Looking Statements and Risk Factors

You should carefully review the information contained in this Quarterly Report, and should particularly consider any risk factors that we set forth in our Annual Report on Form 10-K for the year ended December 31, 2019, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, this Quarterly Report and in other reports or documents that we file from time to time with the Securities and Exchange Commission (the "SEC"). In this Quarterly Report, we state our beliefs of future events and of our future financial performance. This Quarterly Report contains "forward-looking statements" that reflect our current estimates, expectations and projections about our future results, performance, prospects and opportunities. Forward-looking statements include, among other things, the information concerning our possible future results of operations, business and growth strategies, financing plans, expectations that regulatory developments or other matters will not have a material adverse effect on our business or financial condition, our competitive position and the effects of competition, the projected growth of the industry in which we operate, and the benefits and synergies to be obtained from our completed and any future acquisitions, and statements of our goals and objectives, and other similar expressions concerning matters that are not historical facts. Words such as "may," "will," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," "appears," "projects" and similar expressions, as well as statements in future tense, identify forward-looking statements. In evaluating those statements, you should specifically consider various factors, including the risks related to healthcare industry trends and those set forth in *Item 1A. Risk Factors* and *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Forward Looking Statements and Risk Factors* in our Annual Report on Form 10-K for the year ended December 31, 2019, in

Item 1A. Risk Factors and in *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations-Forward Looking Statements and Risk Factors* in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, and in *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations-Forward Looking Statements and Risk Factors* as included herein.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by which, such performance or results will be achieved. Forward-looking information is based on information available at the time and/or our good faith belief with respect to future events, and is subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements. Such factors include, among other things, the following:

- we are subject to risks associated with public health threats and epidemics, including the health concerns relating to the COVID-19 pandemic. In February 2020, the Centers for Disease Control and Prevention ("CDC") confirmed the spread of the disease to the United States. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The federal government has declared COVID-19 a national emergency, as many federal and state authorities have implemented aggressive measures to "flatten the curve" of confirmed individuals diagnosed with COVID-19 in an attempt to curtail the spread of the virus and to avoid overwhelming the health care system;
- the COVID-19 pandemic has adversely impacted and is likely to further adversely impact us, our employees, our patients, our vendors and supply chain partners, and financial institutions, which could have a material adverse effect on our business, results of operations and financial condition. In an effort to slow the spread of the disease, in March, April and May, most state and local governments mandated general "shelter-in-place" orders or other similar restrictions that require or strongly encourage social distancing and, face coverings, and that have closed or limited non-essential business activities. While some of these restrictions have been eased across the United States and most states have lifted moratoriums on elective surgeries and procedures, some restrictions remain in place, and some state and local governments are re-imposing certain restrictions due to increasing rates of COVID-19 cases. While such measures are expected to assist in responding to the recent outbreak, self-quarantines, shelter-in-place orders, and suspension of voluntary procedures and surgeries have had and will likely have an adverse impact on the operations and financial position of health care provider systems due to increased costs, actual reduction and potential reduction in overall patient volume, and shifts in payor mix. Even if such actions help reduce the rate of increase in COVID-19 cases in the near term, they may prove to be ineffective in reducing the total number of cases. The extent to which the COVID-19 pandemic and measures taken in response thereto impact our business, results of operations and financial condition will depend on numerous factors and future developments, most of which are beyond our control or ability to predict. The ultimate impact of the COVID-19 pandemic is highly uncertain and subject to change. We are not able to fully quantify the impact that these factors will have on our future financial results, but expect developments related to the COVID-19 pandemic to materially affect our financial performance in 2020. Even after the COVID-19 outbreak has subsided, we may continue to experience materially adverse impacts on our financial condition and our results of operations as a result of its macroeconomic impact, including any recession that has occurred or may occur in the future, and many of our known risks described in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2019 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 may be heightened;
- the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), a stimulus package signed into law on March 27, 2020, authorizes $100 billion in funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (the "PHSSEF"). These funds are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using PHSSEF funds to reimburse expenses or losses that other sources are obligated to reimburse. However, since the expenses and losses will be ultimately measured over the life of the COVID-19 pandemic, potential retrospective unfavorable adjustments in future periods, of funds recorded as revenues in prior periods, could occur. The U.S. Department of Health and Human Services ("HHS") initially distributed $30 billion of this funding based on each provider's share of total Medicare fee-for-service reimbursement in 2019. Subsequently, HHS distributed $50 billion in CARES Act funding (including the $30 billion already distributed) would be allocated proportional to providers' share of 2018 net patient revenue. We have received payments from these initial fundings of the PHSSEF as disclosed herein. HHS has indicated that distributions of the remaining $50 billion will be targeted primarily to hospitals in COVID-19 high impact areas, to rural providers, safety net hospitals and certain Medicaid providers and to reimburse providers for COVID-19-related treatment of uninsured patients. We have received payments from these targeted distributions of the PHSSEF, as disclosed herein. The CARES Act also makes other forms of financial assistance available to healthcare providers, including through Medicare and Medicaid payment adjustments and an expansion of the Medicare Accelerated and Advance Payment Program, which makes available accelerated payments of Medicare funds in order to increase cash flow to providers. On April 26, 2020, CMS announced it was reevaluating and temporarily suspending the Accelerated and Advance Payment Program in light of the availability of the PHSSEF and the significant funds available through

other programs. We have received accelerated payments under this program as disclosed herein. The Paycheck Protection Program and Health Care Enhancement Act (the "PPPHCE Act"), a stimulus package signed into law on April 24, 2020, includes additional emergency appropriations for COVID-19 response, including $75 billion to be distributed to eligible providers through the PHSSEF. Recipients will not be required to repay the government for funds received, provided they comply with HHS-defined terms and conditions. There is a high degree of uncertainty surrounding the implementation of the CARES Act and the PPPHCE Act, and the federal government may consider additional stimulus and relief efforts, but we are unable to predict whether additional stimulus measures will be enacted or their impact. There can be no assurance as to the total amount of financial and other types of assistance we will receive under the CARES Act and the PPPHCE Act, and it is difficult to predict the impact of such legislation on our operations or how they will affect operations of our competitors. Moreover, we are unable to assess the extent to which anticipated negative impacts on us arising from the COVID-19 pandemic will be offset by amounts or benefits received or to be received under the CARES Act and the PPPHCE Act;

- our ability to comply with the existing laws and government regulations, and/or changes in laws and government regulations;
- an increasing number of legislative initiatives have been passed into law that may result in major changes in the health care delivery system on a national or state level. Legislation has already been enacted that has eliminated the penalty for failing to maintain health coverage that was part of the original Patient Protection and Affordable Care Act (the "Legislation"). President Trump has already taken executive actions: (i) requiring all federal agencies with authorities and responsibilities under the Legislation to "exercise all authority and discretion available to them to waiver, defer, grant exemptions from, or delay" parts of the Legislation that place "unwarranted economic and regulatory burdens" on states, individuals or health care providers; (ii) the issuance of a final rule in June, 2018 by the Department of Labor to enable the formation of association health plans that would be exempt from certain Legislation requirements such as the provision of essential health benefits; (iii) the issuance of a final rule in August, 2018 by the Department of Labor, Treasury, and Health and Human Services to expand the availability of short-term, limited duration health insurance, (iv) eliminating cost-sharing reduction payments to insurers that would otherwise offset deductibles and other out-of-pocket expenses for health plan enrollees at or below 250 percent of the federal poverty level; (v) relaxing requirements for state innovation waivers that could reduce enrollment in the individual and small group markets and lead to additional enrollment in short-term, limited duration insurance and association health plans; (vi) the issuance of a final rule in June, 2019 by the Departments of Labor, Treasury, and Health and Human Services that would incentivize the use of health reimbursement arrangements by employers to permit employees to purchase health insurance in the individual market, and; (vii) the issuance of a final rule intended to increase transparency of healthcare price and quality information. The uncertainty resulting from these Executive Branch policies has led to reduced Exchange enrollment in 2018, 2019 and 2020 and is expected to further worsen the individual and small group market risk pools in future years. It is also anticipated that these and future policies may create additional cost and reimbursement pressures on hospitals, including ours. In addition, while attempts to repeal the entirety of the Legislation have not been successful to date, a key provision of the Legislation was repealed as part of the Tax Cuts and Jobs Act and on December 14, 2018, a federal U.S. District Court Judge in Texas ruled the entire Legislation is unconstitutional. That ruling was appealed and on December 18, 2019, the Fifth Circuit Court of Appeals voted 2-1 to strike down the Legislation individual mandate as unconstitutional and sent the case back to the U.S. District Court in Texas to determine which Legislation provisions should be stricken with the mandate or whether the entire law is unconstitutional without the individual mandate. On March 2, 2020, the U.S. Supreme Court agreed to hear, during the 2020-2021 term, two consolidated cases, filed by the State of California and the United States House of Representatives, asking the Supreme Court to review the ruling by the Fifth Circuit Court of Appeals. Oral argument is expected in late 2020, and a ruling is not expected until after the November 2020 election. The Legislation will remain law while the case proceeds through the appeals process; however, the case creates additional uncertainty as to whether any or all of the Legislation could be struck down, which creates operational risk for the health care industry. We are unable to predict the final outcome of this matter which has caused greater uncertainty regarding the future status of the Legislation. If all or any parts of the Legislation are ultimately found to be unconstitutional, it could have a material adverse effect on our business, financial condition and results of operations. See below in *Sources of Revenue and Health Care Reform* for additional disclosure;
- possible unfavorable changes in the levels and terms of reimbursement for our charges by third party payers or government based payers, including Medicare or Medicaid in the United States, and government based payers in the United Kingdom;
- our ability to enter into managed care provider agreements on acceptable terms and the ability of our competitors to do the same, including contracts with United/Sierra Healthcare in Las Vegas, Nevada. Effective January, 2020, United/Sierra Healthcare in Las Vegas, entered into an agreement with a competitor health system that was previously excluded from their contractual network in the area. As a result, we believe that our 6 acute care hospitals in the Las Vegas, Nevada market, will likely experience a decline in patient volumes. However, we have entered into an amended agreement with United/Sierra Healthcare related to our hospitals in the Las Vegas market that provide for various rate increases beginning

in January, 2020. Although we estimate that the unfavorable impact of the projected declines in patient volumes should be largely offset by the favorable impact of the increased rates, we can provide no assurance that these developments, as well as the effect of COVID-19 on the Las Vegas market, will not have a material adverse impact on our future results of operations;

- the outcome of known and unknown litigation, government investigations, false claims act allegations, and liabilities and other claims asserted against us and other matters as disclosed in *Item 1. Legal Proceedings*, and the effects of adverse publicity relating to such matters*;*
- the unfavorable impact on our business of the deterioration in national, regional and local economic and business conditions, including a worsening of unfavorable credit market conditions;
- competition from other healthcare providers (including physician owned facilities) in certain markets;
- technological and pharmaceutical improvements that increase the cost of providing, or reduce the demand for healthcare;
- our ability to attract and retain qualified personnel, nurses, physicians and other healthcare professionals and the impact on our labor expenses resulting from a shortage of nurses and other healthcare professionals;
- demographic changes;
- the availability of suitable acquisition and divestiture opportunities and our ability to successfully integrate and improve our acquisitions since failure to achieve expected acquisition benefits from certain of our prior or future acquisitions could result in impairment charges for goodwill and purchased intangibles;
- the impact of severe weather conditions, including the effects of hurricanes and climate change;
- as discussed below in *Sources of Revenue*, we receive revenues from various state and county based programs, including Medicaid in all the states in which we operate (we receive Medicaid revenues in excess of $100 million annually from each of California, Texas, Nevada, Washington, D.C., Pennsylvania, Illinois and Massachusetts); CMS-approved Medicaid supplemental programs in certain states including Texas, Mississippi, Illinois, Oklahoma, Nevada, Arkansas, California and Indiana, and; state Medicaid disproportionate share hospital payments in certain states including Texas and South Carolina. We are therefore particularly sensitive to potential reductions in Medicaid and other state based revenue programs as well as regulatory, economic, environmental and competitive changes in those states. We can provide no assurance that reductions to revenues earned pursuant to these programs, and the effect of the COVID-19 pandemic on state budgets, particularly in the above-mentioned states, will not have a material adverse effect on our future results of operations;
- our ability to continue to obtain capital on acceptable terms, including borrowed funds, to fund the future growth of our business;
- our inpatient acute care and behavioral health care facilities may experience decreasing admission and length of stay trends;
- our financial statements reflect large amounts due from various commercial and private payers and there can be no assurance that failure of the payers to remit amounts due to us will not have a material adverse effect on our future results of operations;
- in August, 2011, the Budget Control Act of 2011 (the “2011 Act”) was enacted into law. The 2011 Act imposed annual spending limits for most federal agencies and programs aimed at reducing budget deficits by $917 billion between 2012 and 2021, according to a report released by the Congressional Budget Office. Among its other provisions, the law established a bipartisan Congressional committee, known as the Joint Select Committee on Deficit Reduction (the “Joint Committee”), which was tasked with making recommendations aimed at reducing future federal budget deficits by an additional $1.5 trillion over 10 years. The Joint Committee was unable to reach an agreement by the November 23, 2011 deadline and, as a result, across-the-board cuts to discretionary, national defense and Medicare spending were implemented on March 1, 2013 resulting in Medicare payment reductions of up to 2% per fiscal year with a uniform percentage reduction across all Medicare programs. The Bipartisan Budget Act of 2015, enacted on November 2, 2015, continued the 2% reductions to Medicare reimbursement imposed under the 2011 Act. The CARES Act suspended payment reductions between May 1 and December 31, 2020, in exchange for extended cuts through 2030. We cannot predict whether Congress will restructure the implemented Medicare payment reductions or what other federal budget deficit reduction initiatives may be proposed by Congress going forward;
- uninsured and self-pay patients treated at our acute care facilities unfavorably impact our ability to satisfactorily and timely collect our self-pay patient accounts;
- changes in our business strategies or development plans;

- in June, 2016, the United Kingdom affirmatively voted in a non-binding referendum in favor of the exit of the United Kingdom ("U.K.") from the European Union (the "Brexit") and it was approved by vote of the British legislature. On March 29, 2017, the United Kingdom triggered Article 50 of the Lisbon Treaty, formally starting negotiations regarding its exit from the European Union. On January 31, 2020, the U.K. formally exited the European Union. The U.K. and the European Union will now enter into a transition period in which the terms of the future relationship must be negotiated. The outcome of these negotiations is uncertain, and we do not know to what extent Brexit will ultimately impact the business and regulatory environment in the U.K., the European Union, or other countries. The U.K. will continue to follow European Union rules through at least December 31, 2020 (the "Transition Period"). Any of these effects of Brexit, and others we cannot anticipate, could harm our business, financial condition and results of operations;
- fluctuations in the value of our common stock, and;
- other factors referenced herein or in our other filings with the Securities and Exchange Commission.

Given these uncertainties, risks and assumptions, as outlined above, you are cautioned not to place undue reliance on such forward-looking statements. Our actual results and financial condition could differ materially from those expressed in, or implied by, the forward-looking statements. Forward-looking statements speak only as of the date the statements are made. We assume no obligation to publicly update any forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except as may be required by law. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. We consider our critical accounting policies to be those that require us to make significant judgments and estimates when we prepare our consolidated financial statements. For a summary of our significant accounting policies, please see *Note 1 to the Consolidated Financial Statements* as included in our Annual Report on Form 10-K for the year ended December 31, 2019.

Revenue Recognition: On January 1, 2018, we adopted, using the modified retrospective approach, ASU 2014-09 and ASU 2016-08, "Revenue from Contracts with Customers (Topic 606)" and "Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)", respectively, which provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The most significant change from the adoption of the new standard relates to our estimation for the allowance for doubtful accounts. Under the previous standards, our estimate for amounts not expected to be collected based upon our historical experience, were reflected as provision for doubtful accounts, included within net revenue. Under the new standard, our estimate for amounts not expected to be collected based on historical experience will continue to be recognized as a reduction to net revenue, however, not reflected separately as provision for doubtful accounts. Under the new standard, subsequent changes in estimate of collectability due to a change in the financial status of a payer, for example a bankruptcy, will be recognized as bad debt expense in operating charges. The adoption of this ASU in 2018, and amounts recognized as bad debt expense and included in other operating expenses, did not have a material impact on our consolidated financial statements.

See *Note 12 to the Consolidated Financial Statements-Revenue*, for additional disclosure related to our revenues including a disaggregation of our consolidated net revenues by major source for each of the periods presented herein.

Charity Care, Uninsured Discounts and Other Adjustments to Revenue: Collection of receivables from third-party payers and patients is our primary source of cash and is critical to our operating performance. Our primary collection risks relate to uninsured patients and the portion of the bill which is the patient's responsibility, primarily co-payments and deductibles. We estimate our revenue adjustments for implicit price concessions based on general factors such as payer mix, the aging of the receivables and historical collection experience, consistent with our estimates for provisions for doubtful accounts under ASC 605. We routinely review accounts receivable balances in conjunction with these factors and other economic conditions which might ultimately affect the collectability of the patient accounts and make adjustments to our allowances as warranted. At our acute care hospitals, third party liability accounts are pursued until all payment and adjustments are posted to the patient account. For those accounts with a patient balance after third party liability is finalized or accounts for uninsured patients, the patient receives statements and collection letters.

Under ASC 605, our hospitals established a partial reserve for self-pay accounts in the allowance for doubtful accounts for both unbilled balances and those that have been billed and were under 90 days old. All self-pay accounts were fully reserved at 90 days from the date of discharge. Third party liability accounts were fully reserved in the allowance for doubtful accounts when the balance aged past 180 days from the date of discharge. Patients that express an inability to pay were reviewed for potential sources of financial assistance including our charity care policy. If the patient was deemed unwilling to pay, the account was written-off as bad debt and

transferred to an outside collection agency for additional collection effort. Under ASC 606, while similar processes and methodologies are considered, these revenue adjustments are considered at the time the services are provided in determination of the transaction price.

Historically, a significant portion of the patients treated throughout our portfolio of acute care hospitals are uninsured patients which, in part, has resulted from patients who are employed but do not have health insurance or who have policies with relatively high deductibles. Patients treated at our hospitals for non-elective services, who have gross income of various amounts, dependent upon the state, ranging from 200% to 400% of the federal poverty guidelines, are deemed eligible for charity care. The federal poverty guidelines are established by the federal government and are based on income and family size. Because we do not pursue collection of amounts that qualify as charity care, the transaction price is fully adjusted and there is no impact in our net revenues or in our accounts receivable, net.

A portion of the accounts receivable at our acute care facilities are comprised of Medicaid accounts that are pending approval from third-party payers but we also have smaller amounts due from other miscellaneous payers such as county indigent programs in certain states. Our patient registration process includes an interview of the patient or the patient's responsible party at the time of registration. At that time, an insurance eligibility determination is made and an insurance plan code is assigned. There are various pre-established insurance profiles in our patient accounting system which determine the expected insurance reimbursement for each patient based on the insurance plan code assigned and the services rendered. Certain patients may be classified as Medicaid pending at registration based upon a screening evaluation if we are unable to definitively determine if they are currently Medicaid eligible. When a patient is registered as Medicaid eligible or Medicaid pending, our patient accounting system records net revenues for services provided to that patient based upon the established Medicaid reimbursement rates, subject to the ultimate disposition of the patient's Medicaid eligibility. When the patient's ultimate eligibility is determined, reclassifications may occur which impacts net revenues in future periods. Although the patient's ultimate eligibility determination may result in adjustments to net revenues, these adjustments did not have a material impact on our results of operations during the three and six-month periods ended June 30, 2020 or 2019 since our facilities make estimates at each financial reporting period to adjust revenue based on historical collections. Under ASC 605, these estimates were reported in the provision for doubtful accounts.

We also provide discounts to uninsured patients (included in "uninsured discounts" amounts below) who do not qualify for Medicaid or charity care. Because we do not pursue collection of amounts classified as uninsured discounts, the transaction price is fully adjusted and there is no impact in our net revenues or in our net accounts receivable. In implementing the discount policy, we first attempt to qualify uninsured patients for governmental programs, charity care or any other discount program. If an uninsured patient does not qualify for these programs, the uninsured discount is applied.

The following tables show the amounts recorded at our acute care hospitals for charity care and uninsured discounts, based on charges at established rates, for the three and six-month periods ended June 30, 2020 and 2019:

Uncompensated care:

Amounts in millions	Three Months Ended				Six Months Ended			
	June 30, 2020	%	June 30, 2019	%	June 30, 2020	%	June 30, 2019	%
Charity care	$ 161	30%	$ 140	26%	$ 363	31%	$ 286	28%
Uninsured discounts	379	70%	405	74%	811	69%	733	72%
Total uncompensated care	$ 540	100%	$ 545	100%	$ 1,174	100%	$ 1,019	100%

Estimated cost of providing uncompensated care:

The estimated costs of providing uncompensated care as reflected below were based on a calculation which multiplied the percentage of operating expenses for our acute care hospitals to gross charges for those hospitals by the above-mentioned total uncompensated care amounts. The percentage of cost to gross charges is calculated based on the total operating expenses for our acute care facilities divided by gross patient service revenue for those facilities.

Amounts in millions	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Estimated cost of providing charity care	$ 20	$ 16	$ 43	$ 33
Estimated cost of providing uninsured discounts related care	47	46	95	83
Estimated cost of providing uncompensated care	$ 67	$ 62	$ 138	$ 116

Self-Insured/Other Insurance Risks: We provide for self-insured risks including general and professional liability claims, workers' compensation claims and healthcare and dental claims. Our estimated liability for self-insured professional and general liability claims is based on a number of factors including, among other things, the number of asserted claims and reported incidents, estimates of losses for these claims based on recent and historical settlement amounts, estimate of incurred but not reported claims based on historical experience, and estimates of amounts recoverable under our commercial insurance policies. All relevant information, including our own historical experience is used in estimating the expected amount of claims. While we continuously monitor these factors, our ultimate liability for professional and general liability claims could change materially from our current estimates due to inherent uncertainties involved in making this estimate. Our estimated self-insured reserves are reviewed and changed, if necessary, at each reporting date and changes are recognized currently as additional expense or as a reduction of expense. In addition, we also: (i) own commercial health insurers headquartered in Reno, Nevada, and Puerto Rico and; (ii) maintain self-insured employee benefits programs for employee healthcare and dental claims. The ultimate costs related to these programs/operations include expenses for claims incurred and paid in addition to an accrual for the estimated expenses incurred in connection with claims incurred but not yet reported. Given our significant insurance-related exposure, there can be no assurance that a sharp increase in the number and/or severity of claims asserted against us will not have a material adverse effect on our future results of operations.

See *Note 6 to the Consolidated Financial Statements-Commitments and Contingencies*, for additional disclosure related to our professional and general liability, workers' compensation liability and property insurance.

The total accrual for our professional and general liability claims and workers' compensation claims was $340 million as of June 30, 2020, of which $82 million is included in current liabilities. The total accrual for our professional and general liability claims and workers' compensation claims was $323 million as of December 31, 2019, of which $82 million is included in current liabilities.

Recent Accounting Standards: For a summary of accounting standards, please see *Note 14 to the Consolidated Financial Statements*, as included herein.

Results of Operations

COVID-19

The impact of the COVID-19 pandemic, which began during the second half of March, 2020, has had a material unfavorable effect on our operations and financial results since that time. Patient volumes at both our acute care and behavioral health care facilities were most significantly reduced in April. Our acute care and behavioral health facilities began experiencing gradual and continued improvement in patient volumes in May and June as various states eased stay-at-home restrictions and acute care hospitals were permitted to resume elective surgeries and procedures. However, many of our acute care and behavioral health facilities are located in states that began experiencing significant increases in COVID-19 infections in June, July and early August. We believe that the adverse impact that COVID-19 will have on our future operations and financial results will depend upon many factors, most of which are beyond our capability to control or predict.

Our primary focus as the effects of COVID-19 began to impact our facilities was the health and safety of our patients, employees and physicians. We implemented various measures to provide the safest possible environment within our facilities during this pandemic and will continue to do so.

In addition, we recognized the significant financial stress created by the significant decline in patient volumes that began in mid-March, 2020, at our acute care and behavioral health facilities, and as a result, we implemented numerous financial-related measures at that time including the following:

- Effected initiatives to increase labor productivity and reductions to certain other costs.
- Reduced spend rate and magnitude of certain previously planned capital projects and expenditures.
- Suspended our stock repurchase program and payment of quarterly dividends.

As of June 30, 2020, we have received approximately $320 million of funds from various governmental stimulus programs, most notably the PHSSEF as provided by the CARES Act. Included in our consolidated statements of income for the three and six-month periods ended June 30, 2020 is approximately $218 million of net revenues recorded in connection with these stimulus programs. Approximately $157 million of those revenues were attributable to our acute care facilities; and $61 million were attributable to our behavioral health facilities. During July, 2020, we received additional CARES Act funds totaling approximately $69 million related primarily to COVID-19 high impact areas and safety net hospitals.

In addition, during the second quarter of 2020, we received approximately $375 million of Medicare accelerated payments, which had no impact on our earnings during the three and six-month periods ended June 30, 2020. Although we can provide no assurance that we will ultimately receive additional accelerated Medicare payments, we believe we are entitled to additional funds comparable to the

amount received thus far should the Centers for Medicare and Medicaid Services resume the Medicare accelerated funding program which was suspended on April 26, 2020 for reevaluation.

Please see *Sources of Revenue- 2019 Novel Coronavirus Disease Medicare and Medicaid Payment Related Legislation* below for additional disclosure.

Financial results for the three-month periods ended June 30, 2020 and 2019:

The following table summarizes our results of operations and is used in the discussion below for the three-month periods ended June 30, 2020 and 2019 (dollar amounts in thousands):

	Three months ended June 30, 2020		Three months ended June 30, 2019	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues	$ 2,729,754	100.0%	$ 2,855,168	100.0%
Operating charges:				
Salaries, wages and benefits	1,308,010	47.9%	1,383,481	48.5%
Other operating expenses	625,747	22.9%	672,564	23.6%
Supplies expense	283,572	10.4%	305,857	10.7%
Depreciation and amortization	126,208	4.6%	121,168	4.2%
Lease and rental expense	28,186	1.0%	26,535	0.9%
Subtotal-operating expenses	2,371,723	86.9%	2,509,605	87.9%
Income from operations	358,031	13.1%	345,563	12.1%
Interest expense, net	25,473	0.9%	42,487	1.5%
Other (income) expense, net	(3,100)	(0.1)%	(7,732)	(0.3)%
Income before income taxes	335,658	12.3%	310,808	10.9%
Provision for income taxes	79,154	2.9%	69,543	2.4%
Net income	256,504	9.4%	241,265	8.5%
Less: Income attributable to noncontrolling interests	4,575	0.2%	2,945	0.1%
Net income attributable to UHS	$ 251,929	9.2%	$ 238,320	8.3%

Net revenues decreased 4.4%, or $125 million, to $2.73 billion during the three-month period ended June 30, 2020 as compared to $2.86 billion during the second quarter of 2019. The net decrease was primarily attributable to: (i) a $101 million or 3.6% decrease in net revenues generated from our acute care hospital services and behavioral health services operated during both periods (which we refer to as “same facility”), and; (ii) $24 million of other combined net decreases, including a $14 million reduction in provider tax assessments which had no impact on net income attributable to UHS as reflected above since the amounts offset between net revenues and other operating expenses.

Included in our net revenues during the three-month period ended June 30, 2020 was approximately $218 million of net revenues recorded in connection with various governmental stimulus programs, most notably the CARES, Act. Approximately $157 million of the revenues were attributable to our acute care facilities; and $61 million were attributable to our behavioral health facilities.

Income before income taxes (before deduction for income attributable to noncontrolling interests) increased $25 million to $336 million during the three-month period ended June 30, 2020 as compared to $311 million during the comparable quarter of 2019. The $25 million net increase was due to:

- a decrease of $5 million at our acute care facilities, as discussed below in *Acute Care Hospital Services*;
- a decrease of $9 million at our behavioral health care facilities, as discussed below in *Behavioral Health Services;*
- an increase of $17 million due to a decrease in interest expense due primarily to lower average outstanding borrowings and a decrease in the average cost of borrowings;
- an increase of $11 million due to an increase recorded during the second quarter of 2019 to the reserve previously established in connection with the civil aspects of the government’s investigation of certain of our behavioral health care facilities (as previously disclosed, settlement agreements were finalized in early July, 2020 thereby resolving this matter);
- $11 million of other combined net increases.

Net income attributable to UHS increased $14 million to $252 million during the three-month period ended June 30, 2020 as compared to $238 million during the comparable prior year quarter. This increase was attributable to:

- a $25 million increase in income before income taxes, as discussed above;
- a decrease of $2 million due to an increase in income attributable to noncontrolling interests, and;
- a decrease of $10 million resulting from an increase in the provision for income taxes due primarily to: (i) the income tax provision recorded in connection with the $25 million increase in pre-tax income, and; (ii) a $4 million favorable adjustment recorded during the second quarter of 2019 related to a change in state tax law.

Financial results for the six-month periods ended June 30, 2020 and 2019:

The following table summarizes our results of operations and is used in the discussion below for the six-month periods ended June 30, 2020 and 2019 (dollar amounts in thousands):

	Six months ended June 30, 2020		Six months ended June 30, 2019	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues	$ 5,559,421	100.0%	$ 5,659,559	100.0%
Operating charges:				
Salaries, wages and benefits	2,740,679	49.3%	2,749,027	48.6%
Other operating expenses	1,315,537	23.7%	1,317,344	23.3%
Supplies expense	601,399	10.8%	613,320	10.8%
Depreciation and amortization	250,602	4.5%	241,208	4.3%
Lease and rental expense	56,479	1.0%	52,660	0.9%
Subtotal-operating expenses	4,964,696	89.3%	4,973,559	87.9%
Income from operations	594,725	10.7%	686,000	12.1%
Interest expense, net	61,824	1.1%	82,127	1.5%
Other (income) expense, net	6,460	0.1%	(3,231)	(0.1)%
Income before income taxes	526,441	9.5%	607,104	10.7%
Provision for income taxes	125,477	2.3%	128,441	2.3%
Net income	400,964	7.2%	478,663	8.5%
Less: Income attributable to noncontrolling interests	6,998	0.1%	6,175	0.1%
Net income attributable to UHS	$ 393,966	7.1%	$ 472,488	8.3%

Net revenues decreased 1.8%, or $100 million, to $5.56 billion during the six-month period ended June 30, 2020 as compared to $5.66 billion during the first six months of 2019. The net decrease was primarily attributable to: (i) a $69 million or 1.2% decrease in net revenues generated from our acute care hospital services and behavioral health services operated during both periods, on a same facility basis, and; (ii) $31 million of other combined net decreases, including a $13 million reduction in provider tax assessments which had no impact on net income attributable to UHS as reflected above since the amounts offset between net revenues and other operating expenses. As discussed above, included in our net revenues during the six-month period ended June 30, 2020 was approximately $218 million of net revenues recorded in connection with various governmental stimulus programs, most notably the CARES, Act.

Income before income taxes (before deduction for income attributable to noncontrolling interests) decreased $81 million to $526 million during the six-month period ended June 30, 2020 as compared to $607 million during the first six months of 2019. The $81 million net decrease was due to:

- a decrease of $94 million at our acute care facilities, as discussed below in *Acute Care Hospital Services*;
- a decrease of $16 million at our behavioral health care facilities, as discussed below in *Behavioral Health Services;*
- an increase of $20 million due to a decrease in interest expense due primarily to lower average outstanding borrowings and a decrease in the average cost of borrowings;
- an increase of $11 million due to an increase recorded during the first six months of 2019 to the reserve previously established in connection with the civil aspects of the government's investigation of certain of our behavioral health care facilities (as previously disclosed, settlement agreements were finalized in early July, 2020 thereby resolving this matter), and;
- $2 million of other combined net decreases.

Net income attributable to UHS decreased $79 million to $394 million during the six-month period ended June 30, 2020 as compared to $472 million during the comparable prior year period. This decrease was attributable to:

- an $81 million decrease in income before income taxes, as discussed above;
- a decrease of $1 million due to an increase in income attributable to noncontrolling interests, and;
- an increase of $3 million resulting from a decrease in the provision for income taxes due primarily to: (i) a decrease in the provision for income taxes resulting from the income tax benefit recorded in connection with the $82 million decrease in pre-tax income; (ii) an increase in the provision for income taxes of $11 million resulting from an unfavorable change resulting from the adoption of ASU 2016-09, which increased our provision for income taxes by $1 million during the first six months of 2020 and decreased our provision for income taxes by $10 million during the first six months of 2019, and; (iii) an increase in the provision for income taxes of $4 million favorable adjustment recorded during the first six months of 2019 related to a change in state tax law.

Increase to self-insured professional and general liability reserves:

Our estimated liability for self-insured professional and general liability claims is based on a number of factors including, among other things, the number of asserted claims and reported incidents, estimates of losses for these claims based on recent and historical settlement amounts, estimates of incurred but not reported claims based on historical experience, and estimates of amounts recoverable under our commercial insurance policies. As a result of unfavorable trends recently experienced, during the first six months of 2020 (recorded during the first quarter of 2020), we recorded a $20 million increase to our reserves for self-insured professional and general liability claims. Approximately $15 million of the increase to our reserves for self-insured professional and general liability claims is included in our same facility basis acute care hospitals services' results, as reflected below, and approximately $5 million is included in our behavioral health services' results.

Acute Care Hospital Services

Same Facility Basis Acute Care Hospital Services

We believe that providing our results on a "Same Facility" basis (which is a non-GAAP measure), which includes the operating results for facilities and businesses operated in both the current year and prior year periods, is helpful to our investors as a measure of our operating performance. Our Same Facility results also neutralize (if applicable) the effect of items that are non-operational in nature including items such as, but not limited to, gains/losses on sales of assets and businesses, impacts of settlements, legal judgments and lawsuits, impairments of long-lived and intangible assets and other amounts that may be reflected in the current or prior year financial statements that relate to prior periods.

Our Same Facility basis results reflected on the table below also exclude from net revenues and other operating expenses, provider tax assessments incurred in each period as discussed below *Sources of Revenue-Various State Medicaid Supplemental Payment Programs.* However, these provider tax assessments are included in net revenues and other operating expenses as reflected in the table below under *All Acute Care Hospital Services*. The provider tax assessments had no impact on the income before income taxes as reflected on the tables below since the amounts offset between net revenues and other operating expenses. To obtain a complete understanding of our financial performance, the Same Facility results should be examined in connection with our net income as determined in accordance with GAAP and as presented in the condensed consolidated financial statements and notes thereto as contained in this Quarterly Report on Form 10-Q.

The following table summarizes the results of operations for our acute care facilities on a same facility basis and is used in the discussion below for the three and six-month periods ended June 30, 2020 and 2019 (dollar amounts in thousands):

	Three months ended June 30, 2020		Three months ended June 30, 2019		Six months ended June 30, 2020		Six months ended June 30, 2019	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues	$ 1,446,099	100.0%	$ 1,499,054	100.0%	$ 2,943,222	100.0%	$ 2,990,405	100.0%
Operating charges:								
Salaries, wages and benefits	589,677	40.8%	624,035	41.6%	1,248,606	42.4%	1,243,352	41.6%
Other operating expenses	344,384	23.8%	340,414	22.7%	719,915	24.5%	673,152	22.5%
Supplies expense	233,419	16.1%	255,703	17.1%	497,949	16.9%	513,847	17.2%
Depreciation and amortization	78,440	5.4%	75,810	5.1%	156,368	5.3%	150,171	5.0%
Lease and rental expense	16,563	1.1%	14,736	1.0%	32,583	1.1%	29,035	1.0%
Subtotal-operating expenses	1,262,483	87.3%	1,310,698	87.4%	2,655,421	90.2%	2,609,557	87.3%
Income from operations	183,616	12.7%	188,356	12.6%	287,801	9.8%	380,848	12.7%
Interest expense, net	516	0.0%	244	0.0%	1,134	0.0%	523	0.0%
Other (income) expense, net	-	—	(45)	(0.0)%	0	—	(45)	(0.0)%
Income before income taxes	$ 183,100	12.7%	$ 188,157	12.6%	$ 286,667	9.7%	$ 380,370	12.7%

Three-month periods ended June 30, 2020 and 2019:

During the three-month period ended June 30, 2020, as compared to the comparable prior year quarter, net revenues from our acute care hospital services, on a same facility basis, decreased $53 million or 3.5%. Income before income taxes (and before income attributable to noncontrolling interests) decreased $5 million, or 3%, amounting to $183 million or 12.7% of net revenues during the second quarter of 2020 as compared to $188 million or 12.6% of net revenues during the second quarter of 2019.

Included in our acute care hospital services' revenues during the second quarter of 2020 was approximately $157 million of net revenues recorded in connection with funds received from various governmental stimulus programs, most notably the CARES Act. Excluding these governmental stimulus program revenues from the second quarter of 2020, net revenues from our acute care hospital services, on a same facility basis, decreased $210 million or 14.0% during the second quarter of 2020, as compared to the comparable quarter of 2019.

During the three-month period ended June 30, 2020, excluding the impact of the $157 million of governmental stimulus program revenues recorded during the second quarter of 2020, net revenue per adjusted admission increased 12.7% while net revenue per adjusted patient day increased 3.5%, as compared to the comparable quarter of 2019. During the three-month period ended June 30, 2020, as compared to the comparable prior year quarter, inpatient admissions to our acute care hospitals decreased 18.6% and adjusted admissions (adjusted for outpatient activity) decreased 24.8%. Patient days at these facilities decreased 11.3% and adjusted patient days decreased 18.1% during the three-month period ended June 30, 2020 as compared to the comparable prior year quarter. The average length of inpatient stay at these facilities was 4.9 days and 4.5 days during the three-month periods ended June 30, 2020 and 2019, respectively. The occupancy rate, based on the average available beds at these facilities, was 56% and 64% during the three-month periods ended June 30, 2020 and 2019, respectively.

Six-month periods ended June 30, 2020 and 2019:

During the six-month period ended June 30, 2020, as compared to the comparable prior year period, net revenues from our acute care hospital services, on a same facility basis, decreased $47 million or 1.6%. Income before income taxes (and before income attributable to noncontrolling interests) decreased $94 million, or 25%, amounting to $287 million or 9.7% of net revenues during the first six months of 2020 as compared to $380 million or 12.7% of net revenues during the first six months of 2019. As mentioned above, approximately $15 million of the $20 million increase to our reserves for self-insured professional and general liability claims, as recorded during the first six months of 2020 (recorded during the first quarter of 2020), is included in our same facility basis acute care hospitals services' results.

As mentioned above, included in our acute care hospital services' revenues during the first six months of 2020 was approximately $157 million of net revenues recorded in connection with funds received from various governmental stimulus programs. Excluding these governmental stimulus program revenues from the first six months of 2020, net revenues from our acute care hospital services, on a same facility basis, decreased $204 million or 6.8% during the first six months of 2020, as compared to the comparable period of 2019.

During the six-month period ended June 30, 2020, excluding the impact of the $157 million of governmental stimulus program revenues recorded during the first six months of 2020 (recorded during the second quarter of 2020), net revenue per adjusted admission increased 7.7% while net revenue per adjusted patient day increased 1.3%, as compared to the comparable period of 2019. During the six-month period ended June 30, 2020, as compared to the comparable prior year period, inpatient admissions to our acute

care hospitals decreased 11.0% and adjusted admissions decreased 14.4%. Patient days at these facilities decreased 5.5% and adjusted patient days decreased 9.1% during the six-month period ended June 30, 2020 as compared to the comparable prior year period. The average length of inpatient stay at these facilities was 4.8 days and 4.6 days during the six-month periods ended June 30, 2020 and 2019, respectively. The occupancy rate, based on the average available beds at these facilities, was 60% and 65% during the six-month periods ended June 30, 2020 and 2019, respectively.

All Acute Care Hospitals

The following table summarizes the results of operations for all our acute care operations during the three and six-month periods ended June 30, 2020 and 2019. These amounts include: (i) our acute care results on a same facility basis, as indicated above; (ii) the impact of provider tax assessments which increased net revenues and other operating expenses but had no impact on income before income taxes, and; (iii) certain other amounts including, if applicable, the results of recently acquired/opened ancillary facilities and businesses. Dollar amounts below are reflected in thousands.

	Three months ended June 30, 2020		Three months ended June 30, 2019		Six months ended June 30, 2020		Six months ended June 30, 2019	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues	$ 1,467,506	100.0%	$ 1,531,709	100.0%	$ 2,988,555	100.0%	$ 3,046,553	100.0%
Operating charges:								
Salaries, wages and benefits	589,762	40.2%	624,035	40.7%	1,248,721	41.8%	1,243,352	40.8%
Other operating expenses	365,810	24.9%	373,069	24.4%	765,267	25.6%	729,300	23.9%
Supplies expense	233,419	15.9%	255,703	16.7%	497,949	16.7%	513,847	16.9%
Depreciation and amortization	78,440	5.3%	75,810	4.9%	156,368	5.2%	150,171	4.9%
Lease and rental expense	16,563	1.1%	14,736	1.0%	32,583	1.1%	29,035	1.0%
Subtotal-operating expenses	1,283,994	87.5%	1,343,353	87.7%	2,700,888	90.4%	2,665,705	87.5%
Income from operations	183,512	12.5%	188,356	12.3%	287,667	9.6%	380,848	12.5%
Interest expense, net	516	0.0%	244	0.0%	1,134	0.0%	523	0.0%
Other (income) expense, net	-	—	(45)	(0.0)%	-	—	(45)	(0.0)%
Income before income taxes	$ 182,996	12.5%	$ 188,157	12.3%	$ 286,533	9.6%	$ 380,370	12.5%

Three-month periods ended June 30, 2020 and 2019:

During the three-month period ended June 30, 2020, as compared to the comparable prior year quarter, net revenues from our acute care hospital services decreased $64 million or 4.2% to $1.47 billion as compared to $1.53 billion due to: (i) the $53 million, or 3.5%, decrease same facility revenues, as discussed above, and; (ii) an $11 million reduction in provider tax assessments which had no impact on net income attributable to UHS since the amounts offset between net revenues and other operating expenses.

Income before income taxes decreased $5 million, or 3%, to $183 million or 12.5% of net revenues during the second quarter of 2020 as compared to $188 million or 12.3% of net revenues during the second quarter of 2019. The $5 million decrease in income before income taxes from our acute care hospital services resulted from the decrease in income before income taxes at our hospitals, on a same facility basis, as discussed above.

Six-month periods ended June 30, 2020 and 2019:

During the six-month period ended June 30, 2020, as compared to the comparable prior year period, net revenues from our acute care hospital services decreased $58 million or 1.9% to $2.99 billion as compared to $3.05 billion due to: (i) the $47 million, or 1.6%, decrease same facility revenues, as discussed above, and; (ii) an $11 million reduction in provider tax assessments which had no impact on net income attributable to UHS since the amounts offset between net revenues and other operating expenses.

Income before income taxes decreased $94 million, or 25%, to $287 million or 9.6% of net revenues during the first six months of 2020 as compared to $380 million or 12.5% of net revenues during the comparable period of 2019. The $94 million decrease in income before income taxes from our acute care hospital services resulted from the decrease in income before income taxes at our hospitals, on a same facility basis, as discussed above.

Behavioral Health Services

Our Same Facility basis results (which is a non-GAAP measure), which include the operating results for facilities and businesses operated in both the current year and prior year period, neutralize (if applicable) the effect of items that are non-operational in nature including items such as, but not limited to, gains/losses on sales of assets and businesses, impact of the reserve established in connection with the civil aspects of the government's investigation of certain of our behavioral health care facilities, impacts of settlements, legal judgments and lawsuits, impairments of long-lived and intangible assets and other amounts that may be reflected in

the current or prior year financial statements that relate to prior periods. Our Same Facility basis results reflected on the table below also excludes from net revenues and other operating expenses, provider tax assessments incurred in each period as discussed below *Sources of Revenue-Various State Medicaid Supplemental Payment Programs.* However, these provider tax assessments are included in net revenues and other operating expenses as reflected in the table below under *All Behavioral Health Care Services*. The provider tax assessments had no impact on the income before income taxes as reflected on the tables below since the amounts offset between net revenues and other operating expenses. To obtain a complete understanding of our financial performance, the Same Facility results should be examined in connection with our net income as determined in accordance with GAAP and as presented in the condensed consolidated financial statements and notes thereto as contained in this Quarterly Report on Form 10-Q.

The following table summarizes the results of operations for our behavioral health care facilities, on a same facility basis, and is used in the discussions below for the three and six-month periods ended June 30, 2020 and 2019 (dollar amounts in thousands):

Same Facility—Behavioral Health

	Three months ended June 30, 2020		Three months ended June 30, 2019		Six months ended June 30, 2020		Six months ended June 30, 2019	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues	$ 1,240,631	100.0%	$ 1,289,115	100.0%	$ 2,524,631	100.0%	$ 2,546,024	100.0%
Operating charges:								
Salaries, wages and benefits	648,385	52.3%	676,003	52.4%	1,340,862	53.1%	1,343,926	52.8%
Other operating expenses	221,709	17.9%	237,490	18.4%	464,918	18.4%	474,762	18.6%
Supplies expense	50,386	4.1%	49,608	3.8%	102,015	4.0%	98,324	3.9%
Depreciation and amortization	43,342	3.5%	40,565	3.1%	86,273	3.4%	81,494	3.2%
Lease and rental expense	10,576	0.9%	10,718	0.8%	21,787	0.9%	21,338	0.8%
Subtotal-operating expenses	974,398	78.5%	1,014,384	78.7%	2,015,855	79.8%	2,019,844	79.3%
Income from operations	266,233	21.5%	274,731	21.3%	508,776	20.2%	526,180	20.7%
Interest expense, net	361	0.0%	369	0.0%	725	0.0%	744	0.0%
Other (income) expense, net	922	0.1%	109	0.0%	1,811	0.1%	784	0.0%
Income before income taxes	$ 264,950	21.4%	$ 274,253	21.3%	$ 506,240	20.1%	$ 524,652	20.6%

Three-month periods ended June 30, 2020 and 2019:

On a same facility basis during the second quarter of 2020, net revenues generated from our behavioral health services decreased $48 million, or 3.8%, to $1.24 billion, from $1.29 billion generated during the second quarter of 2019. Income before income taxes decreased $9 million, or 3%, to $265 million or 21.4% of net revenues during the three-month period ended June 30, 2020, as compared to $274 million or 21.3% of net revenues during the second quarter of 2019.

Included in behavioral health services' revenues during the second quarter of 2020 was approximately $61 million of net revenues recorded in connection with funds received from various governmental stimulus programs, most notably the CARES Act. Excluding these governmental stimulus program revenues from the second quarter of 2020, net revenues from our behavioral health services, on a same facility basis, decreased $109 million or 8.5% during the second quarter of 2020, as compared to the comparable quarter of 2019.

During the three-month period ended June 30, 2020, excluding the impact of the $61 million of governmental stimulus program revenues recorded during the second quarter of 2020, net revenue per adjusted admission increased 8.1% and net revenue per adjusted patient day increased 2.0%, as compared to the comparable quarter of 2019. On a same facility basis, inpatient admissions and adjusted admissions to our behavioral health facilities decreased 14.8% and 15.4%, respectively, during the three-month period ended June 30, 2020 as compared to the comparable quarter of 2019. Patient days and adjusted patient days at these facilities decreased 9.7% and 10.4% during the three-month period ended June 30, 2020, respectively, as compared to the comparable prior year quarter. The average length of inpatient stay at these facilities was 14.2 days and 13.5 days during the three-month periods ended June 30, 2020 and 2019, respectively. The occupancy rate, based on the average available beds at these facilities, was 69% and 77% during the three-month periods ended June 30, 2020 and 2019, respectively.

Six-month periods ended June 30, 2020 and 2019:

On a same facility basis during the first six months of 2020, net revenues generated from our behavioral health services decreased $21 million, or 0.8%, to $2.52 billion, from $2.55 billion generated during the first six months of 2019. Income before income taxes decreased $18 million, or 4%, to $506 million or 20.1% of net revenues during the six-month period ended June 30, 2020, as compared to $525 million or 20.6% of net revenues during the first six months of 2019. As mentioned above, approximately $5 million of the $20 million increase to our reserves for self-insured professional and general liability claims, as recorded during the first quarter of 2020, is included in our same facility basis behavioral health services' results.

As mentioned above, included in behavioral health services' revenues during the second quarter of 2020 was approximately $61 million of net revenues recorded in connection with funds received from various governmental stimulus programs. Excluding these governmental stimulus program revenues from the first six months of 2020, net revenues from our behavioral health services, on a same facility basis, decreased $82 million or 3.2% during the first six months of 2020, as compared to the comparable period of 2019.

During the six-month period ended June 30, 2020, excluding the impact of the $61 million of governmental stimulus program revenues recorded during the second quarter of 2020, net revenue per adjusted admission increased 5.9% and net revenue per adjusted patient day increased 2.8%, as compared to the comparable period of 2019. On a same facility basis, inpatient admissions and adjusted admissions to our behavioral health facilities decreased 8.1% and 8.6%, respectively, during the six-month period ended June 30, 2020 as compared to the comparable period of 2019. Patient days and adjusted patient days at these facilities decreased 5.3% and 5.9% during the six-month period ended June 30, 2020, respectively, as compared to the comparable prior year period. The average length of inpatient stay at these facilities was 13.7 days and 13.3 days during the six-month periods ended June 30, 2020 and 2019, respectively. The occupancy rate, based on the average available beds at these facilities, was 72% and 77% during the six-month periods ended June 30, 2020 and 2019, respectively.

All Behavioral Health Care Facilities

The following table summarizes the results of operations for all our behavioral health care services during the three and six-month periods ended June 30, 2020 and 2019. These amounts include: (i) our behavioral health care results on a same facility basis, as indicated above; (ii) the impact of provider tax assessments which increased net revenues and other operating expenses but had no impact on income before income taxes, and; (iii) certain other amounts including the results of facilities acquired or opened during the past year (if applicable) as well as the results of certain facilities that were closed or restructured during the past year. Dollar amounts below are reflected in thousands.

	Three months ended June 30, 2020		Three months ended June 30, 2019		Six months ended June 30, 2020		Six months ended June 30, 2019	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues	$ 1,259,123	100.0%	$ 1,320,241	100.0%	$ 2,565,232	100.0%	$ 2,606,624	100.0%
Operating charges:								
Salaries, wages and benefits	649,376	51.6%	683,948	51.8%	1,342,648	52.3%	1,359,647	52.2%
Other operating expenses	245,045	19.5%	265,785	20.1%	511,227	19.9%	527,922	20.3%
Supplies expense	50,363	4.0%	49,986	3.8%	102,002	4.0%	99,117	3.8%
Depreciation and amortization	45,038	3.6%	42,339	3.2%	88,927	3.5%	84,891	3.3%
Lease and rental expense	11,259	0.9%	11,719	0.9%	23,417	0.9%	23,363	0.9%
Subtotal-operating expenses	1,001,081	79.5%	1,053,777	79.8%	2,068,221	80.6%	2,094,940	80.4%
Income from operations	258,042	20.5%	266,464	20.2%	497,011	19.4%	511,684	19.6%
Interest expense, net	354	0.0%	369	0.0%	751	0.0%	744	0.0%
Other (income) expense, net	922	0.1%	109	0.0%	1,811	0.1%	786	0.0%
Income before income taxes	$ 256,766	20.4%	$ 265,986	20.1%	$ 494,449	19.3%	$ 510,154	19.6%

Three-month periods ended June 30, 2020 and 2019:

During the three-month period ended June 30, 2020, as compared to the comparable prior year quarter, net revenues generated from our behavioral health services decreased $61 million or 4.6% due to: (i) the above-mentioned $48 million or 3.8% decrease in net revenues on a same facility basis, and; (ii) $13 million other combined net decreases.

Income before income taxes decreased $9 million, or 4%, to $257 million or 20.4% of net revenues during the second quarter of 2020 as compared to $266 million or 20.1% of net revenues during the second quarter of 2019. The decrease in income before income taxes at our behavioral health facilities was attributable to the above-mentioned decrease in income before income taxes experienced at our behavioral health facilities on a same facility basis, as discussed above.

Six-month periods ended June 30, 2020 and 2019:

During the six-month period ended June 30, 2020, as compared to the comparable prior year period, net revenues generated from our behavioral health services decreased $41 million or 1.6% due to: (i) the above-mentioned $21 million or 0.8% decrease in net revenues on a same facility basis, and; (ii) $20 million other combined net decreases.

Income before income taxes decreased $16 million, or 3%, to $494 million or 19.3% of net revenues during the first six months of 2020 as compared to $510 million or 19.6% of net revenues during the first six months of 2019. The decrease in income before income taxes at our behavioral health facilities was attributable to:

- a $18 million decrease at our behavioral health facilities on a same facility basis, as discussed above, partially offset by;
- $2 million of other combined net increases.

Sources of Revenue

Overview: We receive payments 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.

Hospital revenues depend upon inpatient occupancy levels, the medical and ancillary services and therapy programs 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 services provided (e.g., medical/surgical, intensive care or behavioral health) and the geographic location of the hospital. Inpatient occupancy levels fluctuate for various reasons, many of which are beyond our control. The percentage of patient service revenue attributable to outpatient services has generally increased in recent years, primarily as a result of advances in medical technology that allow more services to be provided on an outpatient basis, as well as increased pressure from Medicare, Medicaid and private insurers to reduce hospital stays and provide services, where possible, on a less expensive outpatient basis. We believe that our experience with respect to our increased outpatient levels mirrors the general trend occurring in the health care industry and we are unable to predict the rate of growth and resulting impact on our future revenues.

Patients are generally not responsible for any difference between customary hospital charges and amounts reimbursed for such services under Medicare, Medicaid, some private insurance plans, and managed care plans, but are responsible for services not covered by such plans, exclusions, deductibles or co-insurance features of their coverage. The amount of such exclusions, deductibles and co-insurance has generally been increasing each year. Indications from recent federal and state legislation are that this trend will continue. Collection of amounts due from individuals is typically more difficult than from governmental or business payers which unfavorably impacts the collectability of our patient accounts.

As described below in the section titled *2019 Novel Coronavirus Disease ("COVID-19") Medicare and Medicaid Payment Related Legislation*, the federal government has enacted multiple pieces of legislation to assist healthcare providers during the COVID-19 world-wide pandemic and U.S. National Emergency declaration. We have outlined those legislative changes related to Medicare and Medicaid payment and their estimated impact on our financial results, where estimates are possible.

Sources of Revenues and Health Care Reform: Given increasing budget deficits, the federal government and many states are currently considering additional ways to limit increases in levels of Medicare and Medicaid funding, which could also adversely affect future payments received by our hospitals. In addition, the uncertainty and fiscal pressures placed upon the federal government as a result of, among other things, impacts on state revenue and expenses resulting from the COVID-19 pandemic, economic recovery stimulus packages, responses to natural disasters, and the federal and state budget deficits in general may affect the availability of government funds to provide additional relief in the future. We are unable to predict the effect of future policy changes on our operations.

The Legislation revises reimbursement under the Medicare and Medicaid programs to emphasize the efficient delivery of high quality care and contains a number of incentives and penalties under these programs to achieve these goals. The Legislation provides for

decreases in the annual market basket update for federal fiscal years 2010 through 2019, a productivity offset to the market basket update beginning October 1, 2011 for Medicare Part B reimbursable items and services and beginning October 1, 2012 for Medicare inpatient hospital services. The Legislation and subsequent revisions provide for reductions to both Medicare DSH and Medicaid DSH payments. The Medicare DSH reductions began in October, 2013 while the Medicaid DSH reductions are scheduled to begin in 2020. The Legislation implements a value-based purchasing program, which will reward the delivery of efficient care. Conversely, certain facilities will receive reduced reimbursement for failing to meet quality parameters; such hospitals will include those with excessive readmission or hospital-acquired condition rates.

A 2012 U.S. Supreme Court ruling limited the federal government's ability to expand health insurance coverage by holding unconstitutional sections of the Legislation that sought to withdraw federal funding for state noncompliance with certain Medicaid coverage requirements. Pursuant to that decision, the federal government may not penalize states that choose not to participate in the Medicaid expansion by reducing their existing Medicaid funding. Therefore, states can choose to expand or not to expand their Medicaid program without risking the loss of federal Medicaid funding. As a result, many states, including Texas, have not expanded their Medicaid programs without the threat of loss of federal funding. CMS has granted, and is expected to grant additional, section 1115 demonstration waivers providing for work and community engagement requirements for certain Medicaid eligible individuals. CMS has also released guidance to states interested in receiving their Medicaid funding through a block grant mechanism. It is anticipated this will lead to reductions in coverage, and likely increases in uncompensated care, in states where these demonstration waivers are granted.

On December 14, 2018, a Texas Federal District Court deemed the Legislation to be unconstitutional in its entirety. The Court concluded that the Individual Mandate is no longer permissible under Congress's taxing power as a result of the Tax Cut and Jobs Act of 2017 ("TCJA") reducing the individual mandate's tax to $0 (i.e., it no longer produces revenue, which is an essential feature of a tax), rendering the Legislation unconstitutional. The court also held that because the individual mandate is "essential" to the Legislation and is inseverable from the rest of the law, the entire Legislation is unconstitutional. Because the court issued a declaratory judgment and did not enjoin the law, the Legislation remains in place pending its appeal. The District Court for the Northern District of Texas ruling was appealed to the U.S. Court of Appeals for the Fifth Circuit. On December 18, 2019, the Fifth Circuit Court of Appeals' three-judge panel voted 2-1 to strike down the Legislation individual mandate as unconstitutional. The Fifth Circuit Court also sent the case back to the Texas district court to determine which Legislation provisions should be stricken with the mandate or whether the entire Legislation is unconstitutional. On March 2, 2020, the U.S. Supreme Court agreed to hear, during the 2020-2021 term, two consolidated cases, filed by the State of California and the United States House of Representatives, asking the Supreme Court to review the ruling by the Fifth Circuit Court of Appeals. Oral argument is expected in late 2020, and a ruling is not expected until after the November 2020 election. The Legislation will remain law while the case proceeds through the appeals process; however, the case creates additional uncertainty as to whether any or all of the Legislation could be struck down, which creates operational risk for the health care industry. We are unable to predict the final outcome of this legal challenge and its financial impact on our future results of operation.

The various provisions in the Legislation that directly or indirectly affect Medicare and Medicaid reimbursement are scheduled to take effect over a number of years. The impact of the Legislation on healthcare providers will be subject to implementing regulations, interpretive guidance and possible future legislation or legal challenges. Certain Legislation provisions, such as that creating the Medicare Shared Savings Program creates uncertainty in how healthcare may be reimbursed by federal programs in the future. Thus, we cannot predict the impact of the Legislation on our future reimbursement at this time and we can provide no assurance that the Legislation will not have a material adverse effect on our future results of operations.

The Legislation also contained provisions aimed at reducing fraud and abuse in healthcare. The Legislation amends several existing laws, including the federal Anti-Kickback Statute and the False Claims Act, making it easier for government agencies and private plaintiffs to prevail in lawsuits brought against healthcare providers. While Congress had previously revised the intent requirement of the Anti-Kickback Statute to provide that a person is not required to "have actual knowledge or specific intent to commit a violation of" the Anti-Kickback Statute in order to be found in violation of such law, the Legislation also provides that any claims for items or services that violate the Anti-Kickback Statute are also considered false claims for purposes of the federal civil False Claims Act. The Legislation provides that a healthcare provider that retains an overpayment in excess of 60 days is subject to the federal civil False Claims Act. The Legislation also expands the Recovery Audit Contractor program to Medicaid. These amendments also make it easier for severe fines and penalties to be imposed on healthcare providers that violate applicable laws and regulations.

We have partnered with local physicians in the ownership of certain of our facilities. These investments have been permitted under an exception to the physician self-referral law. The Legislation permits existing physician investments in a hospital to continue under a "grandfather" clause if the arrangement satisfies certain requirements and restrictions, but physicians are prohibited from increasing the aggregate percentage of their ownership in the hospital. The Legislation also imposes certain compliance and disclosure requirements upon existing physician-owned hospitals and restricts the ability of physician-owned hospitals to expand the capacity of their facilities. As discussed below, should the Legislation be repealed in its entirety, this aspect of the Legislation would also be

repealed restoring physician ownership of hospitals and expansion right to its position and practice as it existed prior to the Legislation.

The impact of the Legislation on each of our hospitals may vary. Because Legislation provisions are effective at various times over the next several years, we anticipate that many of the provisions in the Legislation may be subject to further revision. Initiatives to repeal the Legislation, in whole or in part, to delay elements of implementation or funding, and to offer amendments or supplements to modify its provisions have been persistent. The ultimate outcomes of legislative attempts to repeal or amend the Legislation and legal challenges to the Legislation are unknown. Legislation has already been enacted that eliminated the individual mandate penalty, effective January 1, 2019, related to the obligation to obtain health insurance that was part of the original Legislation. In addition, Congress previously considered legislation that would, in material part: (i) eliminate the large employer mandate to offer health insurance coverage to full-time employees; (ii) permit insurers to impose a surcharge up to 30 percent on individuals who go uninsured for more than two months and then purchase coverage; (iii) provide tax credits towards the purchase of health insurance, with a phase-out of tax credits accordingly to income level; (iv) expand health savings accounts; (v) impose a per capita cap on federal funding of state Medicaid programs, or, if elected by a state, transition federal funding to block grants, and; (vi) permit states to seek a waiver of certain federal requirements that would allow such state to define essential health benefits differently from federal standards and that would allow certain commercial health plans to take health status, including pre-existing conditions, into account in setting premiums.

In addition to legislative changes, the Legislation can be significantly impacted by executive branch actions. In relevant part, President Trump has already taken executive actions: (i) requiring all federal agencies with authorities and responsibilities under the Legislation to “exercise all authority and discretion available to them to waive, defer, grant exemptions from, or delay” parts of the Legislation that place “unwarranted economic and regulatory burdens” on states, individuals or health care providers; (ii) the issuance of a final rule in June, 2018 by the Department of Labor to enable the formation of health plans that would be exempt from certain Legislation essential health benefits requirements; (iii) the issuance of a final rule in August, 2018 by the Department of Labor, Treasury, and Health and Human Services to expand the availability of short-term, limited duration health insurance; (iv) eliminating cost-sharing reduction payments to insurers that would otherwise offset deductibles and other out-of-pocket expenses for health plan enrollees at or below 250 percent of the federal poverty level, (v) relaxing requirements for state innovation waivers that could reduce enrollment in the individual and small group markets and lead to additional enrollment in short-term, limited duration insurance and association health plans; (vi) the issuance of a final rule in June, 2019 by the Departments of Labor, Treasury, and Health and Human Services that would incentivize the use of health reimbursement arrangements by employers to permit employees to purchase health insurance in the individual market, and; (vii) the issuance of a final rule intended to increase transparency of healthcare price and quality information. The uncertainty resulting from these Executive Branch policies led to reduced Exchange enrollment in 2018, 2019 and 2020 and is expected to further worsen the individual and small group market risk pools in future years. In May, 2019, the Congressional Budget Office projected that 32 million people will be uninsured in 2020. The recent and on-going COVID-19 pandemic and related U.S. National Emergency declaration may significantly increase the number of uninsured patients treated at our facilities extending beyond the most recent CBO published estimates due to increased unemployment and loss of group health plan health insurance coverage. It is also anticipated that these and future policies may create additional cost and reimbursement pressures on hospitals.

It remains unclear what portions of the Legislation may remain, or whether any replacement or alternative programs may be created by any future legislation. Any such future repeal or replacement may have significant impact on the reimbursement for healthcare services generally, and may create reimbursement for services competing with the services offered by our hospitals. Accordingly, there can be no assurance that the adoption of any future federal or state healthcare reform legislation will not have a negative financial impact on our hospitals, including their ability to compete with alternative healthcare services funded by such potential legislation, or for our hospitals to receive payment for services.

For additional disclosure related to our revenues including a disaggregation of our consolidated net revenues by major source for each of the periods presented herein, please see *Note 12 to the Consolidated Financial Statements-Revenue*.

Medicare: Medicare is a federal program that provides certain hospital and medical insurance benefits to persons aged 65 and over, some disabled persons and persons with end-stage renal disease. All of our acute care hospitals and many of our behavioral health centers are certified as providers of Medicare services by the appropriate governmental authorities. Amounts received under the Medicare program are generally significantly less than a hospital’s customary charges for services provided. Since a substantial portion of our revenues will come from patients under the Medicare program, our ability to operate our business successfully in the future will depend in large measure on our ability to adapt to changes in this program.

Under the Medicare program, for inpatient services, our general acute care hospitals receive reimbursement under the inpatient prospective payment system (“IPPS”). Under the IPPS, hospitals are paid a predetermined fixed payment amount for each hospital discharge. The fixed payment amount is based upon each patient’s Medicare severity diagnosis related group (“MS-DRG”). Every

MS-DRG is assigned a payment rate based upon the estimated intensity of hospital resources necessary to treat the average patient with that particular diagnosis. The MS-DRG payment rates are based upon historical national average costs and do not consider the actual costs incurred by a hospital in providing care. This MS-DRG assignment also affects the predetermined capital rate paid with each MS-DRG. The MS-DRG and capital payment rates are adjusted annually by the predetermined geographic adjustment factor for the geographic region in which a particular hospital is located and are weighted based upon a statistically normal distribution of severity. While we generally will not receive payment from Medicare for inpatient services, other than the MS-DRG payment, a hospital may qualify for an "outlier" payment if a particular patient's treatment costs are extraordinarily high and exceed a specified threshold. MS-DRG rates are adjusted by an update factor each federal fiscal year, which begins on October 1. The index used to adjust the MS-DRG rates, known as the "hospital market basket index," gives consideration to the inflation experienced by hospitals in purchasing goods and services. Generally, however, the percentage increases in the MS-DRG payments have been lower than the projected increase in the cost of goods and services purchased by hospitals.

In May, 2020, CMS published its IPPS 2021 proposed payment rule which provides for a 3.0% market basket increase to the base Medicare MS-DRG blended rate. When statutorily mandated budget neutrality factors, annual geographic wage index updates, documenting and coding adjustments, and adjustments mandated by the Legislation are considered, without consideration for the required Medicare DSH payments changes and increase to the Medicare Outlier threshold, the overall increase in IPPS payments is approximately 2.4%. Including DSH payments and certain other adjustments, we estimate our overall increase from the proposed IPPS 2021 rule (covering the period of October 1, 2020 through September 30, 2021) will approximate 2.3%. This projected impact from the IPPS 2021 proposed rule includes an increase of approximately 0.5% to partially restore cuts made as a result of the American Taxpayer Relief Act of 2012 ("ATRA"), as required by the 21st Century Cures Act but excludes the impact of the sequestration reductions related to the 2011 Act, Bipartisan Budget Act of 2015, and Bipartisan Budget Act of 2018, as discussed below.

In the same rule, CMS is proposing to:

- Require hospitals to report certain market-based payment rate information on their Medicare cost report for cost reporting periods ending on or after January 1, 2021, to be used in a potential change to the methodology for calculating the IPPS MS-DRG relative weights to reflect relative market-based pricing, beginning in FY 2024.
- Hospitals would report on the Medicare cost report essentially all of its median payer-specific negotiated charges with all of its third-party payers, including Medicare Advantage (MA) organizations, by MS-DRG.

In August, 2019, CMS published its IPPS 2020 final payment rule which provides for a 3.0% market basket increase to the base Medicare MS-DRG blended rate. When statutorily mandated budget neutrality factors, annual geographic wage index updates, documenting and coding adjustments, and adjustments mandated by the Legislation are considered, without consideration for the required Medicare DSH payments changes and increase to the Medicare Outlier threshold, the overall increase in IPPS payments is approximately 2.8%. Including DSH payments and certain other adjustments, we estimate our overall increase from the final IPPS 2020 rule (covering the period of October 1, 2019 through September 30, 2020) will approximate 2.1%. This projected impact from the IPPS 2020 final rule includes an increase of approximately 0.5% to partially restore cuts made as a result ATRA, as required by the 21st Century Cures Act but excludes the impact of the sequestration reductions related to the 2011 Act, Bipartisan Budget Act of 2015, and Bipartisan Budget Act of 2018, as discussed below. CMS completed its full phase-in to use uncompensated care data from the 2015 Worksheet S-10 hospital cost reports to allocate approximately $8.5 billion in the DSH Uncompensated Care Pool.

In June, 2019, the Supreme Court of the United States issued a decision favorable to hospitals impacting prior year Medicare DSH payments (*Azar v. Allina Health Services*, No. 17-1484 (U.S. Jun. 3, 2019)). In *Allina*, the hospitals challenged the Medicare DSH adjustments for federal fiscal year 2012, specifically challenging CMS's decision to include inpatient hospital days attributable to Medicare Part C enrollee patients in the numerator and denominator of the Medicare/SSI fraction used to calculate a hospital's DSH payments. This ruling addresses CMS's attempts to impose the policy espoused in its vacated 2004 rulemaking to a fiscal year in the 2004–2013 time period without using notice-and-comment rulemaking. This decision should require CMS to recalculate hospitals' DSH Medicare/SSI fractions, with Medicare Part C days excluded, for at least federal fiscal year 2012, but likely federal fiscal years 2005 through 2013. Although we can provide no assurance that we will ultimately receive additional funds, we estimate that the favorable impact of this court ruling on certain prior year hospital Medicare DSH payments could range between $18 million to $28 million in the aggregate.

In August, 2018, CMS published its IPPS 2019 final payment rule which provides for a 2.9% market basket increase to the base Medicare MS-DRG blended rate. When statutorily mandated budget neutrality factors, annual geographic wage index updates, documenting and coding adjustments ACA-mandated adjustments are considered, without consideration for the decreases related to the required Medicare DSH payment changes and decrease to the Medicare Outlier threshold, the overall increase in IPPS payments is approximately 0.5%. Including the estimated increase to our DSH payments (approximating 2.1%) and certain other adjustments, we estimate our overall increase from the final IPPS 2019 rule (covering the period of October 1, 2018 through September 30, 2019) will approximate 2.7%. This projected impact from the IPPS 2019 final rule includes an increase of approximately 0.5% to partially restore cuts made as a result of the ATRA, as required by the 21st Century Cures Act but excludes the impact of the sequestration reductions

related to the 2011 Act, Bipartisan Budget Act of 2015, and Bipartisan Budget Act of 2018, as discussed below. CMS continued to phase-in the use of uncompensated care data from both the 2014 and 2015 Worksheet S-10 hospital cost reports, two-third weighting as part of the proxy methodology to allocate approximately $8 billion in the DSH Uncompensated Care Pool.

The 2011 Act included the imposition of annual spending limits for most federal agencies and programs aimed at reducing budget deficits by $917 billion between 2012 and 2021, according to a report released by the Congressional Budget Office. Among its other provisions, the law established a bipartisan Congressional committee, known as the Joint Committee, which was responsible for developing recommendations aimed at reducing future federal budget deficits by an additional $1.5 trillion over 10 years. The Joint Committee was unable to reach an agreement by the November 23, 2011 deadline and, as a result, across-the-board cuts to discretionary, national defense and Medicare spending were implemented on March 1, 2013 resulting in Medicare payment reductions of up to 2% per fiscal year. The Bipartisan Budget Act of 2015, enacted on November 2, 2015, and the Bipartisan Budget Act of 2019, enacted on August 2, 2019, continued the 2% reductions to Medicare reimbursement imposed under the 2011 Act through 2029. The CARES Act suspended payment reductions between May 1 and December 31, 2020, in exchange for extended cuts through 2030.

Inpatient services furnished by psychiatric hospitals under the Medicare program are paid under a Psychiatric Prospective Payment System (“Psych PPS”). Medicare payments to psychiatric hospitals are based on a prospective per diem rate with adjustments to account for certain facility and patient characteristics. The Psych PPS also contains provisions for outlier payments and an adjustment to a psychiatric hospital’s base payment if it maintains a full-service emergency department.

In July, 2020, CMS published its Psych PPS final rule for the federal fiscal year 2021. Under this final rule, payments to our psychiatric hospitals and units are estimated to increase by 2.2% compared to federal fiscal year 2020. This amount includes the effect of the 2.2% market basket update.

In July, 2019, CMS published its Psych PPS final rule for the federal fiscal year 2020. Under this final rule, payments to our psychiatric hospitals and units are estimated to increase by 1.7% compared to federal fiscal year 2019. This amount includes the effect of the 2.9% market basket update less a 0.75% adjustment as required by the ACA and a 0.4% productivity adjustment.

In August, 2018, CMS published its Psych PPS final rule for the federal fiscal year 2019. Under this final rule, payments to our psychiatric hospitals and units are estimated to increase by 1.35% compared to federal fiscal year 2018. This amount includes the effect of the 2.90% market basket update less a 0.75% adjustment as required by the ACA and a 0.8% productivity adjustment.

In December, 2018, the U.S. District Court for the District of Columbia ruled that HHS did not have statutory authority to implement the 2018 Medicare OPPS rate reduction related to hospitals that qualify for drug discounts under the federal 340B Drug Discount Program and granted a permanent injunction against the payment reduction. In May, 2019, the U.S. District Court for the District of Columbia directed CMS to determine a remedy as well as provide a status report on this remedy by early August, 2019 for this Medicare OPPS payment matter. However, recognizing both the complexity of the OPPS payment system as well as its budget neutral rate setting system, the Court refrained from imposing a remedy. Instead the Judge in the case called for additional briefing from the Plaintiffs and Defendants on the proper scope and implementation for relief. In the 2020 OPPS final rule, CMS retained the rate reduction in dispute, but indicated their intent to potentially use the results of a future 340B hospital survey to collect drug acquisition cost data for CY 2018 and 2019 when crafting a remedy. In the event this 340B hospital survey data is not used to devise a remedy, CMS also indicated that it intends to consider the public input to inform of the steps they would take to propose a remedy for CY 2018 and 2019 in the CY 2021 rulemaking. However, on July 31, 2020, the U.S. Circuit Court of Appeals for the D.C. Circuit reversed the District Court and held that HHS’s decision to lower drug reimbursement rates for 340B hospitals rests on a reasonable interpretation of the Medicare statute. We are unable to predict the ultimate outcome of any appeal and whether relief may be ordered by the Courts. We estimate that the CMS 2018 change in the 340B payment policy increased our 2018 Medicare OPPS payments by approximately $8 million, which has been fully reserved in our results of operations for the year, and estimate that a comparable amount was scheduled to be earned during 2019 and 2020.

In August, 2020, CMS published its OPPS proposed rule for 2021. The hospital market basket increase is 3.0%. The Medicare statute requires a productivity adjustment reduction of 0.4% to the 2021 OPPS market basket resulting in a 2021 update to OPPS payment rates by 2.6%. When other statutorily required adjustments and hospital patient service mix are considered, we estimate that our overall Medicare OPPS update for 2021 will aggregate to a net increase of 4.6% which includes a 5.0% increase to behavioral health division partial hospitalization rates. When the behavioral health division’s partial hospitalization rate impact is excluded, we estimate that our Medicare 2021 OPPS payments will result in a 4.5% increase in payment levels for our acute care division, as compared to 2020.

In November, 2019, CMS published its OPPS final rule for 2020. The hospital market basket increase is 3.0%. The Medicare statute requires a productivity adjustment reduction of 0.4% to the 2020 OPPS market basket resulting in a 2020 update to OPPS payment

rates by 2.6%. When other statutorily required adjustments and hospital patient service mix are considered, we estimate that our overall Medicare OPPS update for 2020 will aggregate to a net increase of 2.7% which includes a 7.7% increase to behavioral health division partial hospitalization rates. When the behavioral health division's partial hospitalization rate impact is excluded, we estimate that our Medicare 2020 OPPS payments will result in a 1.9% increase in payment levels for our acute care division, as compared to 2019. For CY 2020, CMS will use the FY 2020 hospital IPPS post-reclassified wage index for urban and rural areas as the wage index for the OPPS to determine the wage adjustments for both the OPPS payment rate and the copayment standardized amount.

On November 15, 2019, CMS finalized its Hospital Price Transparency rule that implements certain requirements under the June 24, 2019 Presidential Executive Order related to Improving Price and Quality Transparency in American Healthcare to Put Patients First. Under this final rule, effective January 1, 2021, CMS will require: (1) hospitals make public their standard changes (both gross charges and payer-specific negotiated charges) for all items and services online in a machine-readable format, and; (2) hospitals to make public standard charge data for a limited set of "shoppable services" the hospital provides in a form and manner that is more consumer friendly. A lawsuit was filed by several hospital associations, health systems, and hospitals in the U.S. District court for the District of Columbia challenging the legal authority of HHS to implement the final rule. In June, 2020, the U.S. District Court issued a decision in favor of the federal government. The Plaintiffs in the case filed a notice of appeal to the Court of Appeals for the D.C. Circuit. We are unable to predict the ultimate outcome of this legal challenge and the type of relief that may be ordered by the courts. The deadline for compliance with the final rule is January 1, 2021. We are unable to determine the impact, if any, this final rule will have on our future results of operations.

In November, 2018, CMS published its OPPS final rule for 2019. The hospital market basket increase is 2.9%. The Medicare statute requires a productivity adjustment reduction of 0.8% and 0.75% reduction to the 2019 OPPS market basket resulting in a 2019 update to OPPS payment rates by 1.35%. When other statutorily required adjustments and hospital patient service mix are considered, we estimate that our overall Medicare OPPS update for 2019 will aggregate to a net increase of 1.1% which includes a 5.7% increase to behavioral health division partial hospitalization rates. When the behavioral health division's partial hospitalization rate impact is excluded, we estimate that our Medicare 2019 OPPS payments will result in a 0.4% increase in payment levels for our acute care hospitals, as compared to 2018.

Medicaid: Medicaid is a joint federal-state funded health care benefit program that is administered by the states to provide benefits to qualifying individuals. Most state Medicaid payments are made under a PPS-like system, or under programs that negotiate payment levels with individual hospitals. Amounts received under the Medicaid program are generally significantly less than a hospital's customary charges for services provided. In addition to revenues received pursuant to the Medicare program, we receive a large portion of our revenues either directly from Medicaid programs or from managed care companies managing Medicaid. All of our acute care hospitals and most of our behavioral health centers are certified as providers of Medicaid services by the appropriate governmental authorities.

We receive revenues from various state and county based programs, including Medicaid in all the states in which we operate (we receive Medicaid revenues in excess of $100 million annually from each of California, Texas, Nevada, Washington, D.C., Pennsylvania, Illinois and Massachusetts); CMS-approved Medicaid supplemental programs in certain states including Texas, Mississippi, Illinois, Oklahoma, Nevada, Arkansas, California and Indiana, and; state Medicaid disproportionate share hospital payments in certain states including Texas and South Carolina. We are therefore particularly sensitive to potential reductions in Medicaid and other state based revenue programs as well as regulatory, economic, environmental and competitive changes in those states. We can provide no assurance that reductions to revenues earned pursuant to these programs, particularly in the above-mentioned states, will not have a material adverse effect on our future results of operations.

The Legislation substantially increases the federally and state-funded Medicaid insurance program, and authorizes states to establish federally subsidized non-Medicaid health plans for low-income residents not eligible for Medicaid starting in 2014. However, the Supreme Court has struck down portions of the Legislation requiring states to expand their Medicaid programs in exchange for increased federal funding. Accordingly, many states in which we operate have not expanded Medicaid coverage to individuals at 133% of the federal poverty level. Facilities in states not opting to expand Medicaid coverage under the Legislation may be additionally penalized by corresponding reductions to Medicaid disproportionate share hospital payments beginning in 2020, as discussed below. We can provide no assurance that further reductions to Medicaid revenues, particularly in the above-mentioned states, will not have a material adverse effect on our future results of operations.

On November 12, 2019, CMS issued the proposed Medicaid Fiscal Accountability Rule ("MFAR") for which CMS believes will strengthen the fiscal integrity of the Medicaid program and help ensure that state supplemental payments and financing arrangements are transparent and value-driven.

This rule proposes to establish regulations to:

- Improve Reporting on Medicaid Supplemental Payments.

- Clarify Medicaid Financing Definitions.
- Reduce what CMS considers “Questionable Financing Mechanisms” by states.
- Clarifies the Definition of Permissible Health Care-Related Taxes and Donations.
- Implement certain Medicaid Disproportionate Share Hospital (DSH) Payment related changes.

The MFAR proposed rule, if implemented, could have a significant impact on the means by which states finance the non-federal share of their Medicaid programs. Under the proposal, CMS would have the ability to strike down common financing arrangements such as provider taxes, intergovernmental transfers and donations. These changes could have detrimental impacts on state Medicaid programs. If finalized as proposed, the rule could potentially force states to raise taxes or cut their Medicaid budgets. In subsequent years, it could have an unfavorable impact on Medicaid beneficiaries by likely limiting access to providers and requiring states to consider reductions to their Medicaid programs.

We receive a significant amount of Medicaid and Medicaid managed care revenue from both base payments and supplemental payments. Although we are unable to estimate the impact of MFAR on our future results of operations, if implemented as proposed, MFAR related changes could have a material adverse impact on our future results of operations.

In January, 2020, CMS announced a new opportunity to support states with greater flexibility to improve the health of their Medicaid populations. The new 1115 Waiver Block Grant Type Demonstration program, titled Healthy Adult Opportunity (“HAO”), emphasizes the concept of value-based care while granting states extensive flexibility to administer and design their programs within a defined budget. CMS believes this state opportunity will enhance the Medicaid program’s integrity through its focus on accountability for results and quality improvement, making the Medicaid program stronger for states and beneficiaries.

The HAO program will include:

- Beneficiary Protections.
- Flexibility in the Administration of Benefits.
- Transparency.
- Financing and Program Integrity
    - States participating in HAO demonstrations will need to agree to operate their program within a defined budget target, set on either a total expenses or per-enrollee basis, in a manner similar to that used in other section 1115 demonstrations.
    - To the extent states achieve savings and demonstrate no declines in access or quality, CMS will share back a portion of the federal savings for reinvestment into Medicaid.
- Limited Medicaid Population
    - The population includes adults under age 65 who are not eligible for Medicaid on the basis of disability or on their need for long term care services and supports, and who are not eligible under a state plan.
- Benefit Design and Drug Coverage
    - States have the opportunity to design a benefit package that aligns with private coverage.
    - Provide states with greater negotiating power to lower drug spending and promote value in the program.
- Managed Care and Delivery Systems
    - States will be able to use any combination of fee-for-service and managed care delivery systems and will have flexibility to alter these arrangements over the course of the demonstration
- Streamlined Application Process Transitioning 1115 Demonstrations
- Quality Strategy and Performance Assessment
    - States will be held to a high standard of accountability for producing positive health outcomes and will be subject to regular and thorough monitoring and evaluation

We are unable to predict whether any states will opt to apply for participation in the HAO demonstration or the impact on our future results of operations.

Various State Medicaid Supplemental Payment Programs:

We incur health-care related taxes (“Provider Taxes”) imposed by states in the form of a licensing fee, assessment or other mandatory payment which are related to: (i) healthcare items or services; (ii) the provision of, or the authority to provide, the health care items or services, or; (iii) the payment for the health care items or services. Such Provider Taxes are subject to various federal regulations that limit the scope and amount of the taxes that can be levied by states in order to secure federal matching funds as part of their respective state Medicaid programs. As outlined below, we derive a related Medicaid reimbursement benefit from assessed Provider Taxes in the form of Medicaid claims based payment increases and/or lump sum Medicaid supplemental payments.

Included in these Provider Tax programs are reimbursements received in connection with the Texas Uncompensated Care/Upper Payment Limit program (“UC/UPL”) and Texas Delivery System Reform Incentive Payments program (“DSRIP”). Additional disclosure related to the Texas UC/UPL and DSRIP programs is provided below.

Texas Uncompensated Care/Upper Payment Limit Payments:

Certain of our acute care hospitals located in various counties of Texas (Grayson, Hidalgo, Maverick, Potter and Webb) participate in Medicaid supplemental payment Section 1115 Waiver indigent care programs. Section 1115 Waiver Uncompensated Care (“UC”) payments replace the former Upper Payment Limit (“UPL”) payments. These hospitals also have affiliation agreements with third-party hospitals to provide free hospital and physician care to qualifying indigent residents of these counties. Our hospitals receive both supplemental payments from the Medicaid program and indigent care payments from third-party, affiliated hospitals. The supplemental payments are contingent on the county or hospital district making an Inter-Governmental Transfer (“IGT”) to the state Medicaid program while the indigent care payment is contingent on a transfer of funds from the applicable affiliated hospitals. However, the county or hospital district is prohibited from entering into an agreement to condition any IGT on the amount of any private hospital’s indigent care obligation.

On December 21, 2017, CMS approved the 1115 Waiver for the period January 1, 2018 to September 30, 2022. The Waiver continued to include UC and DSRIP payment pools with modifications and new state specific reporting deadlines that if not met by THHSC will result in material decreases in the size of the UC and DSRIP pools. For UC during the initial two years of this renewal, the UC program will remain relatively the same in size and allocation methodology. For year three of this waiver renewal, FFY 2020, and through FFY 2022, the size and distribution of the UC pool will be determined based on charity care costs reported to HHSC in accordance with Medicare cost report Worksheet S-10 principles. In September 2019, CMS approved the annual UC pool size in the amount of $3.9 billion for demonstration years (“DYs”) 9, 10 and 11 (October 1, 2019 to September 30, 2022.

Effective April 1, 2018, certain of our acute care hospitals located in Texas began to receive Medicaid managed care rate enhancements under the Uniform Hospital Rate Increase Program (“UHRIP”). The non-federal share component of these UHRIP rate enhancements are financed by Provider Taxes. The Texas 1115 Waiver rules require UHRIP rate enhancements be considered in the Texas UC payment methodology which results in a reduction to our UC payments. The UC amounts reported in the State Medicaid Supplemental Payment Program Table below reflect the impact of this new UHRIP program. In July 2020, THHSC announced CMS approval of an increase to UHRIP pool for the state’s 2021 fiscal year to $2.7 billion from its current funding level of $1.6 billion. We estimate that this UHRIP pool increase will not have a material impact on the Company financial results due to CMS approved pool allocation methodology for the SFY 2021 program.

On November 16, 2018, THHSC published a final rule effective in federal fiscal years 2018 and 2019 that changes the definition of a rural hospital for the purposes of determining Texas UC payments and the applicable UC payment reduction. The application of UC payment reduction allows the THHSC to comply with the overall statewide UC payment cap required under the special terms and condition of the approved 1115 Waiver. Two of our acute care hospitals, which have been designated as a Rural Referral Center by CMS and which are located in an urban Metropolitan Statistical Area, recorded: (i) increased UC payments/revenue for the federal fiscal year ending September 30, 2018, and; (ii) decreased UC payments/revenue for the federal fiscal year beginning October 1, 2018. The net impact of these changes had a favorable impact on our 2018 results of operations and are included in the amounts reflected below in the *State Medicaid Supplemental Payment Program* table.

Texas Delivery System Reform Incentive Payments:

In addition, the Texas Medicaid Section 1115 Waiver includes a DSRIP pool to incentivize hospitals and other providers to transform their service delivery practices to improve quality, health status, patient experience, coordination, and cost-effectiveness. DSRIP pool payments are incentive payments to hospitals and other providers that develop programs or strategies to enhance access to health care, increase the quality of care, the cost-effectiveness of care provided and the health of the patients and families served. In May, 2014, CMS formally approved specific DSRIP projects for certain of our hospitals for demonstration years 3 to 5 (our facilities did not materially participate in the DSRIP pool during demonstration years 1 or 2). DSRIP payments are contingent on the hospital meeting certain pre-determined milestones, metrics and clinical outcomes. Additionally, DSRIP payments are contingent on a governmental entity providing an IGT for the non-federal share component of the DSRIP payment. THHSC generally approves DSRIP reported metrics, milestones and clinical outcomes on a semi-annual basis in June and December. Under the CMS approval noted above, the Waiver renewal requires the transition of the DSRIP program to one focused on "health system performance measurement and improvement." THHSC must submit a transition plan describing "how it will further develop its delivery system reforms without DSRIP funding and/or phase out DSRIP funded activities and meet mutually agreeable milestones to demonstrate its ongoing progress." The size of the DSRIP pool will remain unchanged for the initial two years of the waiver renewal with unspecified decreases in years three and four of the renewal, FFY 2020 and 2021, respectively. In FFY 2022, DSRIP funding under the waiver is eliminated. For FFY 2020 and 2021, we estimate these changes will result in a $3 million and $4 million decrease in DSRIP payments, respectively. For FFY 2022, we will no longer receive DSRIP funds due to the elimination of this funding source by CMS

in the Waiver renewal. In March, 2020, HHSC submitted a DSRIP Transition Plan to CMS as required by the 1115 Waiver Special Terms and Conditions #37 that outlines a transition from the current DSRIP program to a Value-Based Purchasing ("VBP") type payment model. The effective date of the new VBP payment model (if approved by CMS) is not yet known. Similarly, details of the VBP model are still under development. As a result, we are unable to estimate the financial impact of this payment change.

Summary of Amounts Related To The Above-Mentioned Various State Medicaid Supplemental Payment Programs:

The following table summarizes the revenues, Provider Taxes and net benefit related to each of the above-mentioned Medicaid supplemental programs for the three and six month periods ended June 30, 2020 and 2019. The Provider Taxes are recorded in other operating expenses on the Condensed Consolidated Statements of Income as included herein.

	(amounts in millions)			
	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Texas UC/UPL:				
Revenues	$ 24	$ 27	$ 56	$ 53
Provider Taxes	(3)	(12)	(16)	(22)
Net benefit	$ 21	$ 15	$ 40	$ 31
Texas DSRIP:				
Revenues	$ 29	$ 23	$ 29	$ 23
Provider Taxes	(9)	(10)	(9)	(10)
Net benefit	$ 20	$ 13	$ 20	$ 13
Various other state programs:				
Revenues	$ 68	$ 65	$ 142	$ 126
Provider Taxes	(29)	(34)	(62)	(68)
Net benefit	$ 39	$ 31	$ 80	$ 58
Total all Provider Tax programs:				
Revenues	$ 121	$ 115	$ 227	$ 202
Provider Taxes	(41)	(56)	(87)	(100)
Net benefit	$ 80	$ 59	$ 140	$ 102

We estimate that our aggregate net benefit from the Texas and various other state Medicaid supplemental payment programs will approximate $248 million (net of Provider Taxes of $191 million) during the year ending December 31, 2020. This estimate is based upon various terms and conditions that are out of our control including, but not limited to, the states'/CMS's continued approval of the programs and the applicable hospital district or county making IGTs consistent with 2019 levels. Future changes to these terms and conditions could materially reduce our net benefit derived from the programs which could have a material adverse impact on our future consolidated results of operations. In addition, Provider Taxes are governed by both federal and state laws and are subject to future legislative changes that, if reduced from current rates in several states, could have a material adverse impact on our future consolidated results of operations. As described below in the *2019 Novel Coronavirus Disease ("COVID-19") Medicare and Medicaid Payment Related Legislation*, a 6.2% increase to the Medicaid Federal Matching Assistance Percentage ("FMAP") is included in Public Law No: 116-127 (3/18/2020) Families First Coronavirus Response Act. The impact of the enhanced FMAP Medicaid supplemental and DSH payments are reflected in Company results in the quarter ending June 30, 2020. We are unable to estimate the prospective financial impact of this provision at this time as Company financial impact is contingent on unknown state action during future eligible federal fiscal quarters.

Texas and South Carolina Medicaid Disproportionate Share Hospital Payments:

Hospitals that have an unusually large number of low-income patients (i.e., those with a Medicaid utilization rate of at least one standard deviation above the mean Medicaid utilization, or having a low income patient utilization rate exceeding 25%) are eligible to receive a DSH adjustment. Congress established a national limit on DSH adjustments. Although this legislation and the resulting state broad-based provider taxes have affected the payments we receive under the Medicaid program, to date the net impact has not been materially adverse.

Upon meeting certain conditions and serving a disproportionately high share of Texas' and South Carolina's low income patients, five of our facilities located in Texas and one facility located in South Carolina received additional reimbursement from each state's DSH fund. The South Carolina and Texas DSH programs were renewed for each state's 2020 DSH fiscal year (covering the period of October 1, 2019 through September 30, 2020).

In connection with these DSH programs, included in our financial results was an aggregate of approximately $16 million and $18 million during the three-month periods ended June 30, 2020 and 2019, respectively, and $25 million and $28 million during the six-month periods ended June 30, 2020 and 2019, respectively. We expect the aggregate reimbursements to our hospitals pursuant to the Texas and South Carolina 2020 fiscal year programs to be approximately $44 million.

The Legislation and subsequent federal legislation provides for a significant reduction in Medicaid disproportionate share payments beginning in federal fiscal year 2021 (see below in *Sources of Revenues and Health Care Reform-Medicaid Revisions* for additional disclosure related to the delay of these DSH reductions). HHS is to determine the amount of Medicaid DSH payment cuts imposed on each state based on a defined methodology. As Medicaid DSH payments to states will be cut, consequently, payments to Medicaid-participating providers, including our hospitals in Texas and South Carolina, will be reduced in the coming years. Based on the CMS final rule published in September, 2019, beginning in fiscal year 2021 (as amended by the CARES Act), annual Medicaid DSH payments in South Carolina and Texas could be reduced by approximately 32% and 23%, respectively, from 2020 DSH payment levels.

Our behavioral health care facilities in Texas have been receiving Medicaid DSH payments since FFY 2016. As with all Medicaid DSH payments, hospitals are subject to state audits that typically occur up to three years after their receipt. DSH payments are subject to a federal Hospital Specific Limit ("HSL") and are not fully known until the DSH audit results are concluded. In general, freestanding psychiatric hospitals tend to provide significantly less charity care than acute care hospitals and therefore are at more risk for retroactive recoupment of prior year DSH payments in excess of their respective HSL. In light of the retroactive HSL audit risk for freestanding psychiatric hospitals, we have established DSH reserves for our facilities that have been receiving funds since FFY 2016. These DSH reserves are also impacted by the resolution of federal DSH litigation related to Children's Hospital Association of Texas v. Azar ("CHAT"), No. 17-cv-844 (D.D.C. March 2, 2018), appeal docketed, No. 18-5135 (D.C. Cir. May 9, 2018) where the calculation of HSL was being challenged. In August, 2019, DC Circuit Court of Appeals issued a unanimous decision in CHAT and reversed the judgment of the district court in favor of CMS and ordered that CMS's "2017 Rule" (regarding Medicaid DSH Payments—Treatment of Third Party Payers in Calculating Uncompensated Care Costs) be reinstated. CMS has not issued any additional guidance post the ruling. In April 2020, the plaintiffs in the case have petitioned the Supreme Court of the United States to hear their case. Additionally, there have been separate legal challenges on this same issue in the Fifth and Eight Circuits. On November 4, 2019, the United States Court of Appeals for the Eighth Circuit issued an opinion upholding the 2017 Rule. Missouri Hosp. Ass'n v. Azar, No. 18-1778 (8th Cir. Nov. 4, 2019) (i.e. reversing a district court order enjoining the 2017 rule). On April 20, 2020, the United States Court of Appeals of the Fifth Circuit issued a decision also upholding the 2017 Rule. Baptist Memorial Hospital v. Azar, No. 18-60592 (5th Cir. April 20, 2020). In light of these court decisions, we continue to maintain reserves in the financial statements for cumulative Medicaid DSH and UC reimbursements related to our behavioral health hospitals located in Texas that amounted to $33 million and $22 million as of June 30, 2020 and 2019, respectively.

Nevada SPA:
In Nevada, CMS approved a state plan amendment ("SPA") in August, 2014 that implemented a hospital supplemental payment program retroactive to January 1, 2014. This SPA has been approved for additional state fiscal years including the 2020 fiscal year covering the period of July 1, 2019 through June 30, 2020.

In connection with this program, included in our financial results was approximately $7 million during each of the three-month periods ending June 30, 2020 and 2019 and $14 million during each of the six-month periods ended June 30, 2020 and 2019. We estimate that our reimbursements pursuant to this program will approximate $25 million during the year ended December 31, 2020. This 2020 projected amount reflects a March 2020 Board of Trustees for the Fund for Hospital Care For Indigent Persons ("IAF Board") approval to reduce funding for the non-federal share of the Nevada supplemental payment program for SFY 2021. Concurrent IAF Board action also approved the elimination of this funding of the non-federal share of the Nevada supplemental payment program for SFY 2022.

California SPA:

In California, CMS issued formal approval of the 2017-19 Hospital Fee Program in December, 2017 retroactive to January 1, 2017 through June 30, 2019. In September, 2019, the state submitted a request to renew the Hospital Fee Program for the period July 1, 2019 to December 31, 2021. On February 25, 2020, CMS approved this renewed program. These approvals include the Medicaid inpatient and outpatient fee-for-service supplemental payments and the overall provider tax structure but did not yet include the approval of the managed care rate setting payment component for certain rate periods (see table below). The managed care payment component consists of two categories of payments, "pass-through" payments and "directed" payments. The pass-through payments are similar in nature to the prior Hospital Fee Program payment method whereas the directed payment method will be based on actual concurrent hospital Medicaid managed care in-network patient volume.

California Hospital Fee Program CMS Approval Status:

Hospital Fee Program Component	CMS Methodology Approval Status	CMS Rate Setting Approval Status
Fee For Service Payment	Approved through December 31, 2021	Approved through December 31, 2021
Managed Care-Pass-Through Payment	Approved through December 31, 2020	Approved through June 30, 2017; Paid in advance of approval through June 30, 2019
Managed Care-Directed Payment	Approved through December 31, 2020	Approved through June 30, 2019; Paid through June 30, 2018

The actual managed care payment rate setting component associated with the renewed program is still under development and subject to CMS approval. The timing of these additional approvals are uncertain. In connection with the existing program, included in our financial results was approximately $7 million and $4 million during the three-month periods ended June 30, 2020 and 2019, respectively, and $14 million and $8 million during the six-month period ending June 30, 2020 and June 30, 2019, respectively. We estimate that our reimbursements pursuant to this program will approximate $29 million during the year ended December 31, 2020. The aggregate impact of the California supplemental payment program, as outlined above, is included in the above *State Medicaid Supplemental Payment Program* table. On April 28, 2020, the California Department of Health Care Services ("DHCS") notified hospital providers that participate in the Medicaid managed care directed payment program that DHCS has identified a data error with their directed payment calculation for the period July 1, 2017 to June 30, 2018. DHCS will recalculate the directed payment add-on payment amount and plan to notify providers of their new respective payment amounts likely during the third quarter of 2020. We are unable to determine the impact of this planned DCHS directed payment change.

Risk Factors Related To State Supplemental Medicaid Payments:
As outlined above, we receive substantial reimbursement from multiple states in connection with various supplemental Medicaid payment programs. The states include, but are not limited to, Texas, Mississippi, Illinois, Nevada, Arkansas, California and Indiana. Failure to renew these programs beyond their scheduled termination dates, failure of the public hospitals to provide the necessary IGTs for the states' share of the DSH programs, failure of our hospitals that currently receive supplemental Medicaid revenues to qualify for future funds under these programs, or reductions in reimbursements, could have a material adverse effect on our future results of operations.

In April, 2016, CMS published its final Medicaid Managed Care Rule which explicitly permits but phases out the use of pass-through payments (including supplemental payments) by Medicaid Managed Care Organizations ("MCO") to hospitals over ten years but allows for a transition of the pass-through payments into value-based payment structures, delivery system reform initiatives or payments tied to services under a MCO contract. Since we are unable to determine the financial impact of this aspect of the final rule, we can provide no assurance that the final rule will not have a material adverse effect on our future results of operations. In November, 2018, CMS issued a proposed rule that would permit pass-through supplemental provider payments during a time-limited period when states transition populations or services from fee-for-service Medicaid to managed care.

HITECH Act: In July 2010, the Department of Health and Human Services ("HHS") published final regulations implementing the health information technology ("HIT") provisions of the American Recovery and Reinvestment Act (referred to as the "HITECH Act"). The final regulation defines the "meaningful use" of Electronic Health Records ("EHR") and establishes the requirements for the Medicare and Medicaid EHR payment incentive programs. The final rule established an initial set of standards and certification criteria. The implementation period for these new Medicare and Medicaid incentive payments started in federal fiscal year 2011 and can end as late as 2016 for Medicare and 2021 for the state Medicaid programs. State Medicaid program participation in this federally funded incentive program is voluntary but all of the states in which our eligible hospitals operate have chosen to participate. Our acute care hospitals qualified for these EHR incentive payments upon implementation of the EHR application assuming they meet the "meaningful use" criteria. The government's ultimate goal is to promote more effective (quality) and efficient healthcare delivery through the use of technology to reduce the total cost of healthcare for all Americans and utilizing the cost savings to expand access to the healthcare system.

All of our acute care hospitals have met the applicable meaningful use criteria. However, under the HITECH Act, hospitals must continue to meet the applicable meaningful use criteria in each fiscal year or they will be subject to a market basket update reduction in a subsequent fiscal year. Failure of our acute care hospitals to continue to meet the applicable meaningful use criteria would have an adverse effect on our future net revenues and results of operations.

In the 2019 IPPS final rule, CMS overhauled the Medicare and Medicaid EHR Incentive Program to focus on interoperability, improve flexibility, relieve burden and place emphasis on measures that require the electronic exchange of health information between

providers and patients. We can provide no assurance that the changes will not have a material adverse effect on our future results of operations.

Managed Care: A significant portion of our net patient revenues are generated from managed care companies, which include health maintenance organizations, preferred provider organizations and managed Medicare (referred to as Medicare Part C or Medicare Advantage) and Medicaid programs. In general, we expect the percentage of our 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 our facilities vary among the markets in which we operate. Typically, we receive lower payments per patient from managed care payers than we do from traditional indemnity insurers, however, during the past few years we have secured price increases from many of our commercial payers including managed care companies.

Commercial Insurance: Our hospitals also provide services to individuals covered by private health care insurance. Private insurance carriers typically make direct payments to hospitals or, in some cases, reimburse their policy holders, based upon the particular hospital's established charges and the particular coverage provided in the insurance policy. Private insurance reimbursement varies among payers and states and is generally based on contracts negotiated between the hospital and the payer.

Commercial insurers are continuing efforts to limit the payments for hospital services by adopting discounted payment mechanisms, including predetermined payment or DRG-based payment systems, for more inpatient and outpatient services. To the extent that such efforts are successful and reduce the insurers' reimbursement to hospitals and the costs of providing services to their beneficiaries, such reduced levels of reimbursement may have a negative impact on the operating results of our hospitals.

Other Sources: Our hospitals provide services to individuals that do not have any form of health care coverage. Such patients are evaluated, at the time of service or shortly thereafter, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid or other state assistance programs, as well as our local hospitals' indigent and charity care policy. Patients without health care coverage who do not qualify for Medicaid or indigent care write-offs are offered substantial discounts in an effort to settle their outstanding account balances.

Health Care Reform: Listed below are the Medicare, Medicaid and other health care industry changes which have been, or are scheduled to be, implemented as a result of the Legislation.

Implemented Medicare Reductions and Reforms:

- The Legislation reduced the market basket update for inpatient and outpatient hospitals and inpatient behavioral health facilities by 0.25% in each of 2010 and 2011, by 0.10% in each of 2012 and 2013, 0.30% in 2014, 0.20% in each of 2015 and 2016 and 0.75% in each of 2017, 2018 and 2019.
- The Legislation implemented certain reforms to Medicare Advantage payments, effective in 2011.
- A Medicare shared savings program, effective in 2012.
- A hospital readmissions reduction program, effective in 2012.
- A value-based purchasing program for hospitals, effective in 2012.
- A national pilot program on payment bundling, effective in 2013.
- Reduction to Medicare DSH payments, effective in 2014, as discussed above.

Medicaid Revisions:

- Expanded Medicaid eligibility and related special federal payments, effective in 2014.
- The Legislation (as amended by subsequent federal legislation) requires annual aggregate reductions in federal DSH funding from federal fiscal year ("FFY") 2021 through FFY 2025. The aggregate annual reduction amounts are $4.0 billion for FFY 2021 (effective December 1, 2020) and $8.0 billion for FFY 2022 through FFY 2025. In December, 2019, federal legislation was enacted which delays the reduction in the Medicaid DSH allotment through May 22, 2020 and then subsequent federal legislation in March, 2020 delayed the reduction through November 30, 2020.

Health Insurance Revisions:

- Large employer insurance reforms, effective in 2015.

- Individual insurance mandate and related federal subsidies, effective in 2014. As noted above in *Health Care Reform*, the Tax Cuts and Jobs Act enacted into law in December, 2017 eliminated the individual insurance federal mandate penalty beginning January 1, 2019.
- Federally mandated insurance coverage reforms, effective in 2010 and forward.

The Legislation seeks to increase competition among private health insurers by providing for transparent federal and state insurance exchanges. The Legislation also prohibits private insurers from adjusting insurance premiums based on health status, gender, or other specified factors. We cannot provide assurance that these provisions will not adversely affect the ability of private insurers to pay for services provided to insured patients, or that these changes will not have a negative material impact on our results of operations going forward.

Value-Based Purchasing:

There is a trend in the healthcare industry toward value-based purchasing of healthcare services. These value-based purchasing programs include both public reporting of quality data and preventable adverse events tied to the quality and efficiency of care provided by facilities. Governmental programs including Medicare and Medicaid currently require hospitals to report certain quality data to receive full reimbursement updates. In addition, Medicare does not reimburse for care related to certain preventable adverse events. Many large commercial payers currently require hospitals to report quality data, and several commercial payers do not reimburse hospitals for certain preventable adverse events.

The Legislation required HHS to implement a value-based purchasing program for inpatient hospital services which became effective on October 1, 2012. The Legislation requires HHS to reduce inpatient hospital payments for all discharges by a percentage beginning at 1% in FFY 2013 and increasing by 0.25% each fiscal year up to 2% in FFY 2017 and subsequent years. HHS will pool the amount collected from these reductions to fund payments to reward hospitals that meet or exceed certain quality performance standards established by HHS. HHS will determine the amount each hospital that meets or exceeds the quality performance standards will receive from the pool of dollars created by these payment reductions. In its fiscal year 2016 IPPS final rule, CMS funded the value-based purchasing program by reducing base operating DRG payment amounts to participating hospitals by 1.75%. For FFY 2017 and subsequent years, this reduction was increased to its maximum of 2%.

Hospital Acquired Conditions:

The Legislation prohibits the use of federal funds under the Medicaid program to reimburse providers for medical assistance provided to treat hospital acquired conditions (“HAC”). Beginning in FFY 2015, hospitals that fall into the top 25% of national risk-adjusted HAC rates for all hospitals in the previous year will receive a 1% reduction in their total Medicare payments.

Readmission Reduction Program:

In the Legislation, Congress also mandated implementation of the hospital readmission reduction program (“HRRP”). Hospitals with excessive readmissions for conditions designated by HHS will receive reduced payments for all inpatient discharges, not just discharges relating to the conditions subject to the excessive readmission standard. The HRRP currently assesses penalties on hospitals having excess readmission rates for heart failure, myocardial infarction, pneumonia, acute exacerbation of chronic obstructive pulmonary disease (COPD) and elective total hip arthroplasty (THA) and/or total knee arthroplasty (TKA), excluding planned readmissions, when compared to expected rates. In the fiscal year 2015 IPPS final rule, CMS added readmissions for coronary artery bypass graft (CABG) surgical procedures beginning in fiscal year 2017. To account for excess readmissions, an applicable hospital's base operating DRG payment amount is adjusted for each discharge occurring during the fiscal year. Readmissions payment adjustment factors can be no more than a 3 percent reduction.

Accountable Care Organizations:

The Legislation requires HHS to establish a Medicare Shared Savings Program that promotes accountability and coordination of care through the creation of accountable care organizations (“ACOs”). The ACO program allows providers (including hospitals), physicians and other designated professionals and suppliers to voluntarily work together to invest in infrastructure and redesign delivery processes to achieve high quality and efficient delivery of services. The program is intended to produce savings as a result of improved quality and operational efficiency. ACOs that achieve quality performance standards established by HHS will be eligible to share in a portion of the amounts saved by the Medicare program. CMS is also developing and implementing more advanced ACO payment models, such as the Next Generation ACO Model, which require ACOs to assume greater risk for attributed beneficiaries. On December 21, 2018, CMS published a final rule that, in general, requires ACO participants to take on additional risk associated with participation in the program. On April 30, 2020, CMS issued an interim final rule with comment in response to the COVID-19 national emergency permitting ACOs with current agreement periods expiring on December 31, 2020 the option to extend their existing agreement period by one year, and permitting certain ACOs to retain their participation level through 2021. It remains unclear to what extent providers will pursue federal ACO status or whether the required investment would be warranted by increased payment.

Bundled Payments for Care Improvement Advanced:

The Center for Medicare & Medicaid Innovation ("CMMI") is responsible for establishing demonstration projects and other initiatives aimed to develop, test and encourage the adoption of new methods for delivery and payment for health care that create savings under the Federal Medicare and state Medicaid programs while improving quality of care. For example, providers participating in bundled payment initiatives agree to receive one payment for services provided to Medicare beneficiaries for certain medical conditions or episodes of care, accepting accountability for costs and quality of care across the continuum of care. By rewarding providers for increasing quality and reducing costs, and penalizing providers if costs exceed a set amount, these models are intended to lead to higher quality and more coordinated care at a lower cost to the Medicare beneficiary and overall program. The CMMI has previously implemented a voluntary bundled payment program known as the Bundled Payment for Care Improvement ("BPCI"). Substantially all of our acute care hospitals were participants in the BPCI program, which ended September 30, 2018.

CMMI implemented a new, second generation voluntary episode payment model, Bundled Payments for Care Improvement Advanced (BPCI-Advanced or the Program), with the first performance period beginning October 1, 2018. BPCI-Advanced is designed to test a new iteration of bundled payments for 32 Clinical Episodes (29 inpatient and 3 outpatient) with an aim to align incentives among participating health care providers to reduce expenditures and improve quality of care for traditional Medicare beneficiaries. The first cohort of participants entered BPCI-Advanced on October 1, 2018, and agreed to an initial performance period that will run through December 31, 2023. We initially elected to participate in BPCI-Advanced at seventeen (17) of our acute care hospitals across almost two hundred (200) clinical episodes in collaboration with a third-party convener which has extensive experience and success in BPCI. A second BPCI-Advanced cohort started January 1, 2020 where our participation in the program increased to twenty-two (22) acute care hospitals with over three hundred (300) clinical episodes. The ultimate success and financial impact of the BPCI-Advanced program is contingent on multiple variables so we are unable to estimate the impact. However, given the breadth and scope of participation of our acute care hospitals in BPCI-Advanced, the impact could be significant (either favorably or unfavorably) depending on actual program results. The COVID-19 national emergency described below in the *2019 Novel Coronavirus Disease ("COVID-19") Medicare and Medicaid Payment Related Legislation* section could adversely impact BPCI-A program results absent CMS intervention to provide temporary participant hold harmless financial protections similar to ones that have been implemented in the past by CMS after the occurrence of other natural disaster events. We are unable to predict whether such protections will be implemented by CMS during this COVID-19 national emergency. The initial CMS BPCI-A reconciliation in Q1 2020 for the period October 1, 2018 through June 30, 2019 did not have material impact on our financial results.

2019 Novel Coronavirus Disease ("COVID-19") Medicare and Medicaid Payment Related Legislation

In response to the growing threat of the 2019 Novel Coronavirus Disease ("COVID-19"), on March 13, 2020 President Trump declared a national emergency. The President's declaration empowered the HHS Secretary to waive certain Medicare, Medicaid and Children's Health Insurance Program ("CHIP") program requirements and Medicare conditions of participation under Section 1135 of the Social Security Act. Having been granted this authority by HHS, CMS issued a broad range of blanket waivers, which eased certain requirements for impacted providers, including:

- Waivers and Flexibilities for Hospitals and other Healthcare Facilities including those for physical environment requirements and certain Emergency Medical Treatment & Labor Act provisions
- Provider Enrollment Flexibilities
- Flexibility and Relief for State Medicaid Programs including those under section 1135 Waivers
- Suspension of Certain Enforcement Activities

In addition to the national emergency declaration, Congress passed and President Trump signed legislation intended to support state and local authority responses to COVID-19 as well as provide fiscal support to businesses, individuals, financial markets, hospitals and other healthcare providers. This enacted legislation includes:

- *Public Law No: 116-123 - Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 (3/06/2020)*
    - The legislation provided $8.3 billion in emergency funding for federal agencies to respond to the coronavirus outbreak.

- *Public Law No: 116-127 Families First Coronavirus Response Act (3/18/2020)*
    - The legislation provides paid sick leave, tax credits, and free COVID-19 testing; expands nutrition assistance and unemployment benefits; and increases Medicaid funding.
        - This legislation increases the Medicaid FMAP by 6.2% retroactive to the federal fiscal quarter beginning January 1, 2020 and each subsequent federal fiscal quarter for all states and U.S. territories during the declared public health emergency, in accordance with specified conditions. For example, in order to receive

the increased FMAP, a state Medicaid program may not require standards for eligibility that are more restrictive than the standards that were in effect on January 1, 2020.
    - The HHS Secretary renewed the public health emergency ("PHE") effective July 25, 2020 for ninety (90) days. As a result, states would be eligible for the enhanced FMAP through the first quarter of federal fiscal year 2021 should the PHE not be rescinded by the Secretary before the end of the ninety day period.
    - In response to this legislation, certain state Medicaid supplemental and DSH payment programs such as those in Texas and Mississippi have increased the level of provider payments or reduced the related Provider Tax amount used to fund the non-federal share of these supplemental payments. The favorable impact from these state Medicaid responses are included in the above State Medicaid Supplemental Payment and State Medicaid DSH Program noted amounts.

- *H.R. 748, the Coronavirus Aid, Relief, and Economic Security Act, ("CARES Act")(03/27/2020)*
    - The CARES Act includes sweeping measures that provides $2.2 trillion in emergency assistance to individuals, families, and businesses affected by the COVID-19 pandemic. Legislative provisions granting immediate funding relief are:
    - The creation of a $175 billion Public Health and Social Services Emergency Fund ("PHSSEF") for grants available to hospitals and other healthcare providers (as amended by H.R. 266 on April 24, 2010 which added $75 billion to the fund).
        - This new program will provide grants intended to cover unreimbursed health care related expenses or lost revenues attributable to the public health emergency resulting from the coronavirus.
        - The new program will also reimburse hospitals at Medicare rates for uncompensated COVID-19 care for the uninsured.
        - Grants to eligible recipients will be made in multiple tranches by HHS
            - As of June 30, 2020, we have received approximately $320 million of funds from various governmental stimulus programs, most notably the Public Health and Social Services Emergency Fund as provided by the CARES Act. Our operating results for the six-months ended June 30, 2020 include the recognition of $218 million in PHSSEF grant income pursuant to meeting the applicable the terms and conditions of the various distribution programs as of June 30, 2020. In addition, during July, 2020, we received additional CARES Act funds totaling approximately $69 million related primarily to COVID-19 high impact areas and safety net hospitals. The HHS terms and conditions for all grant recipients and specific fund distributions are located at https://www.hhs.gov/coronavirus/cares-act-provider-relief-fund/for-providers/index.html
            - HHS expects providers will only use Provider Relief Fund (i.e. "PHSSEF") payments for as long as they have healthcare related expenses or lost revenue attributable to COVID-19, they are not reimbursed from other sources and other sources were not obligated to reimburse them. As a result, if, at the conclusion of the pandemic, providers have leftover Provider Relief Fund money that they cannot expend on permissible expenses or losses, then they will return this money to HHS. We are unable to predict if any funds received will ultimately need to be returned to HHS.
            - HHS Distributions from the PHSSEF include General Distributions to eligible healthcare providers and Targeted Distributions that focus on providers in areas particularly impacted by the COVID-19 outbreak, rural providers, providers of services with lower shares of Medicare reimbursement or who predominantly serve the Medicaid population, and providers requesting reimbursement for the treatment of uninsured Americans.

    - Increase of provider funding through immediate Medicare sequester relief.
        - Suspension of the 2% Medicare sequestration offset for Medicare services provided from May 1, 2020 through December 31, 2020.
        - We estimate that this provision will have a favorable impact of $30 million during this period.

    - Medicare add-on for inpatient hospital COVID-19 patients.
        - Increases the payment that would otherwise be made to a hospital for treating a Medicare patient admitted with COVID-19 by twenty percent (20%) for the duration of the COVID-19 public health emergency.
        - As of June 30, 2020, we estimate that additional payments under this provision were approximately $4 million. These payments offset the increased expenses associated with the treatment of Medicare COVID-19 patients.

    - Expansion of the Medicare Accelerated and Advance Payment Program.

- As of July 31, 2020, we received approximately $375 million under the Accelerated and Advance Payment Program. A hospital that receives funds under this program is not required to start repayment for 120 days, general acute care hospitals have up to one year and psychiatric hospitals will have up to 210 days to complete repayment without the assessment of interest. As such, we will begin repaying this loan through the recoupment of future Medicare claims in August, 2020, likely through December, 2020, but as late as April, 2021.

- Coronavirus Relief Fund.
  - Establishes a $150 billion Coronavirus Relief Fund. The Secretary of Treasury is authorized to make payments for COIVD-19 response efforts to states, tribal governments and local governments with populations of 500,000 or more. We are unable to predict whether any portion of this this state and local funding will ultimately be paid to our hospitals impacted by COVID-19. Please see *COVID-19 State and Local Grant Programs* below for additional disclosure.

- H.R 266 – The Paycheck Protection Program and Health Care Enhancement Act (4/24/2020)
  - Includes an additional $75 billion for the PHSSEF to reimburse hospitals and health care providers for COVID-19 related expenses and lost revenue. The legislation also includes $25 billion for necessary expenses to research, develop, validate, manufacture, purchase, administer and expand capacity for COVID-19 tests.

COVID-19 State and Local Grant Programs

We have pursued available COVID-19 related state and local grant funding opportunities where available. State and local grants received as July 31, 2020 include approximately $5 million from Washington, D.C., and $2 million from Massachusetts. We are unable to predict the aggregate amount of state and local grant opportunities that we will ultimately secure.

In addition to statutory and regulatory changes to the Medicare program and each of the state Medicaid programs, our operations and reimbursement may be affected by administrative rulings, new or novel interpretations and determinations of existing laws and regulations, post-payment audits, requirements for utilization review and new governmental funding restrictions, all of which may materially increase or decrease program payments as well as affect the cost of providing services and the timing of payments to our facilities. The final determination of amounts we receive under the Medicare and Medicaid programs often takes many years, because of audits by the program representatives, providers' rights of appeal and the application of numerous technical reimbursement provisions. We believe that we have made adequate provisions for such potential adjustments. Nevertheless, until final adjustments are made, certain issues remain unresolved and previously determined allowances could become either inadequate or more than ultimately required.

Finally, we expect continued third-party efforts to aggressively manage reimbursement levels and cost controls. Reductions in reimbursement amounts received from third-party payers could have a material adverse effect on our financial position and our results.

Other Operating Results

Interest Expense:

As reflected on the schedule below, interest expense was $25 million and $42 million during the three-month periods ended June 30, 2020 and 2019, respectively, and $62 million and $82 million during the six-month periods ended June 30, 2020 and 2019, respectively (amounts in thousands):

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Revolving credit & demand notes (a.)	$ 511	$ 845	$ 1,227	$ 1,590
$700 million, 4.75% Senior Notes due 2022, net (b.)	8,071	8,071	16,140	16,140
$400 million, 5.00% Senior Notes due 2026 (c.)	5,000	5,000	10,000	10,000
Term loan facility A (a.)	9,074	19,235	23,439	38,569
Term loan facility B (a.)	2,817	5,322	7,101	10,640
Accounts receivable securitization program (d.)	583	3,459	2,626	6,651
Subtotal-revolving credit, demand notes, Senior Notes, term loan facilities and accounts receivable securitization program	26,056	41,932	60,533	83,590
Interest rate swap income, net	-	(456)	-	(3,400)
Amortization of financing fees	1,278	1,278	2,560	2,556
Other combined interest expense	(566)	613	1,105	1,304
Capitalized interest on major projects	(978)	(831)	(2,027)	(1,605)
Interest income	(317)	(49)	(347)	(318)
Interest expense, net	$ 25,473	$ 42,487	$ 61,824	$ 82,127

(a.) In October, 2018, we entered into a sixth amendment to our credit agreement dated November 15, 2010 to, among other things: (i.) increase the aggregate amount of the revolving commitments by $200 million to $1 billion; (ii) increase the aggregate amount of the term loan facility A by approximately $290 million to $2 billion, and; (iii) extend the maturity date of the credit agreement from August 7, 2019 to October 23, 2023. On October 31, 2018, we added a seven-year, Tranche B term loan facility in the aggregate amount of $500 million pursuant to our credit agreement. The Tranche B term loan matures on October 31, 2025.

As of June 30, 2020, we had: (i) $1.925 billion of borrowings outstanding under the term loan A facility; (ii) $492.5 million of borrowings outstanding under the term loan B facility, and; (iii) no outstanding borrowings under the $1 billion revolving credit facility.

(b.) In June, 2016, we completed the offering of an additional $400 million aggregate principal amount of 4.75% Senior Notes due in 2022 (issued at a yield of 4.35%), the terms of which were identical to the terms of our $300 million aggregate principal amount of 4.75% Senior Notes due in 2022, issued in August, 2014. These Senior Notes, combined, are referred to as $700 million, 4.75% Senior Notes due in 2022.

(c.) In June, 2016, we completed the offering of $400 million aggregate principal amount of 5.00% Senior Notes due in 2026.

(d.) In April, 2018, we amended our accounts receivable securitization program, which was scheduled to expire in December, 2018. Pursuant to the amendment, the term has been extended through April 26, 2021, and the borrowing limit has been increased to $450 million from $440 million. As of June 30, 2020, we had no outstanding borrowings under our accounts receivable securitization program.

Interest expense decreased $17 million during the three-month period ended June 30, 2020, as compared to the comparable period of 2019, due primarily to: (i) a net $16 million decrease in aggregate interest expense on our revolving credit, demand notes, senior notes, term loan facilities and accounts receivable securitization program resulting from a decrease in our aggregate average cost of borrowings pursuant to these facilities (2.9% during the three months ended June 30, 2020 as compared to 4.1% in the comparable quarter of 2019), as well as a decrease in the aggregate average outstanding borrowings ($3.58 billion during the three months ended June 30, 2020 as compared to $4.03 billion in the comparable 2019 quarter), and; (ii)) $1 million of other combined decreases in interest expense. The average effective interest rate on these facilities, including amortization of deferred financing costs and original issue discounts and designated interest rate swap expense (for the period ended June 30, 2019) was 3.0% and 4.2% during the three-month periods ended June 30, 2020 and 2019, respectively.

Interest expense decreased $20 million during the six-month period ended June 30, 2020, as compared to the comparable period of 2019, due primarily to: (i) a net $23 million decrease in aggregate interest expense on our revolving credit, demand notes, senior notes, term loan facility and accounts receivable securitization program resulting from a decrease in our aggregate average cost of borrowings pursuant to these facilities (3.25% during the six months ended June 30, 2020 as compared to 4.2% in the comparable period of 2019), as well as a decrease in the aggregate average outstanding borrowings ($3.71 billion during the six months ended June 30, 2020 as compared to $4.01 billion in the comparable 2019 quarter), offset by; (ii) $3 million of other net combined increases in interest expense. The average effective interest rate on these facilities, including amortization of deferred financing costs and original issue discounts and designated interest rate swap expense (for the period ended June 30, 2019) was 3.4% and 4.1% during the six-month periods ended June 30, 2020 and 2019, respectively.

Provision for Income Taxes and Effective Tax Rates:

The effective tax rates, as calculated by dividing the provision for income taxes by income before income taxes, were as follows for the three and six-month periods ended June 30, 2020 and 2019 (dollar amounts in thousands):

	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Provision for income taxes	$ 79,154	$ 69,543	$ 125,477	$ 128,441
Income before income taxes	335,658	310,808	526,441	607,104
Effective tax rate	23.6%	22.4%	23.8%	21.2%

The provision for income taxes increased $10 million during the three-month period ended June 30, 2020, as compared to the comparable quarter of 2019, due primarily to: (i) the income tax provision recorded in connection with the $23 million increase in pre-tax income, and; (ii) a $4 million favorable adjustment recorded during the second quarter of 2019 related to a change in state tax law.

The provision for income taxes decreased $3 million during the six-month period ended June 30, 2020, as compared to the comparable period of 2019, due primarily to: (i) the income tax benefit recorded in connection with the $80 million decrease in pre-tax income, partially offset by; (ii) a $12 million increase in the provision for income taxes resulting from our adoption of ASU 2016-09, which increased our provision for income taxes by approximately $1 million during the first six months of 2020 as compared to a decrease of approximately $11 million during the first six months of 2019, and; (iii) a $4 million favorable adjustment recorded during the irst six months of 2019 related to a change in state tax law..

Liquidity

Net cash provided by operating activities

Net cash provided by operating activities was $1.451 billion during the six-month period ended June 30, 2020 and $673 million during the comparable period of 2019. The net increase of $779 million was attributable to the following:

- a favorable change of $477 million resulting from the Medicare accelerated payments and deferred governmental stimulus grants received during the second quarter of 2020;
- a favorable change of $233 million in accounts receivable;
- a favorable change of $134 million in accrued and deferred income taxes due, in part, to COVID-19 related deferrals granted by the Federal government and those of certain states, which deferred income tax payments into the third quarter of 2020, that were originally scheduled to be remitted during the second quarter of 2020;
- an unfavorable change of $67 million resulting from a decrease in net income plus/minus depreciation and amortization expense, stock-based compensation expense and loss on sales of assets and businesses, and;
- $2 million of other combined net favorable changes.

Days sales outstanding ("DSO"): Our DSO are calculated by dividing our net revenue by the number of days in the six-month periods. The result is divided into the accounts receivable balance at June 30th of each year to obtain the DSO. Our DSO were 47 days and 51 days at June 30, 2020 and 2019, respectively.

Net cash used in investing activities

During the first six months of 2020, we used $297 million of net cash in investing activities as follows:

- $355 million spent on capital expenditures including capital expenditures for equipment, renovations and new projects at various existing facilities;

- $57 million received in connection with net cash inflows from forward exchange contracts that hedge our investment in the U.K. against movements in exchange rates;
- $6 million received from the sale of assets and businesses;
- $4 million spent on the purchase and implementation of information technology applications, and;
- $1 million spent on the acquisition of businesses and property.

During the first six months of 2019, we used $345 million of net cash in investing activities as follows:

- $324 million spent on capital expenditures including capital expenditures for equipment, renovations and new projects at various existing facilities;
- $13 million spent on the purchase and implementation of information technology applications;
- $12 million spent to fund investments in and advances to joint ventures and other, and;
- $4 million received in connection with net cash inflows from forward exchange contracts that hedge our investment in the U.K. against movements in exchange rates.

During the fourth quarter of 2019, we identified certain cash inflows related to operating activities that were incorrectly classified as cash inflows from foreign currency exchange contracts, as included cash flows from investing activities, on our condensed consolidated statements of cash flows for the quarterly periods in 2019. The cash flows related to our foreign currency exchange contracts were correctly classified on our consolidated statements of cash flows for the year ended December 31, 2019. We determined that these misclassifications were not material to the financial statements of any period during 2019. However, in order to improve the consistency and comparability of the financial statements, we have revised the condensed consolidated statements of cash flows for the six-month period ended June 30, 2019.

Net cash used in financing activities

During the first six months of 2020, we used $674 million of net cash in financing activities as follows:

- spent $459 million on net repayments of debt as follows: (i) $25 million related to our term loan A facility; (ii) $400 million related to our accounts receivable securitization program; (iii) $3 million related to our term loan B facility, and; (iv) $31 million related to a short-term credit facility.
- generated $5 million of proceeds related to other debt facilities;
- spent $200 million to repurchase shares of our Class B Common Stock in connection with: (i) open market purchases pursuant to our $2.7 billion stock repurchase program, which has since been suspended as a result of the COVID-19 pandemic ($197 million), and; (ii) income tax withholding obligations related to stock-based compensation programs ($3 million);
- spent $9 million to pay profit distributions related to noncontrolling interests in majority owned businesses;
- spent $18 million to pay a cash dividends of $.20 per share during the first quarter (quarterly dividends have since been suspended as a result of the COVID-19 pandemic), and;
- generated $6 million from the issuance of shares of our Class B Common Stock pursuant to the terms of employee stock purchase plans.

During the first six months of 2019, we used $370 million of net cash in financing activities as follows:

- spent $29 million on net repayments of debt as follows: (i) $25 million related to our term loan A facility; (ii) $3 million related to our term loan B facility, and; (iii) $1 million related to other debt facilities;
- generated $177 million of proceeds related to new borrowings as follows: (i) $102 million pursuant to our revolving credit facility; (ii) $47 million pursuant to our accounts receivable securitization program, and; (iii) $29 million pursuant to a short-term, on-demand credit facility.
- spent $495 million to repurchase shares of our Class B Common Stock in connection with: (i) open market purchases pursuant to our stock repurchase program ($462 million), and; (ii) income tax withholding obligations related to stock-based compensation programs ($33 million);

- spent $12 million to pay profit distributions related to noncontrolling interests in majority owned businesses;
- spent $18 million to pay quarterly cash dividends of $.10 per share, and;
- generated $5 million from the issuance of shares of our Class B Common Stock pursuant to the terms of employee stock purchase plans.

Expected capital expenditures during remainder of 2020

As mentioned above, as a result of the COVID-19 pandemic, we plan to reduce the spend rate and magnitude of certain previously planned capital projects and expenditures. Our estimated capital expenditures for the full year of 2020 are projected to be approximately $650 million to $700 million. During the first six months of 2020, we spent approximately $355 million on capital expenditures. During the remaining six months of 2020, we expect to spend approximately $295 million to $345 million which includes expenditures for capital equipment, renovations and new projects at existing hospitals.

We believe that our capital expenditure program is adequate to expand, improve and equip our existing hospitals. We expect to finance all capital expenditures and acquisitions with internally generated funds and/or additional funds, as discussed below.

Capital Resources

Cash, Cash Equivalents and Restricted Cash

As of June 30, 2020, we had approximately $584 million of cash, cash equivalents and restricted cash consisting primarily of short-term cash accounts on which interest is being earned at various annual rates ranging from 0.10% to 0.65%.

Credit Facilities and Outstanding Debt Securities

On October 23, 2018, we entered into a Sixth Amendment (the “Sixth Amendment”) to our credit agreement dated as of November 15, 2010, as amended on March 15, 2011, September 21, 2012, May 16, 2013, August 7, 2014 and June 7, 2016, among UHS, as borrower, the several banks and other financial institutions from time to time parties thereto, as lenders, JPMorgan Chase Bank, N.A., as administrative agent, and the other agents party thereto (the “Senior Credit Agreement”). The Sixth Amendment became effective on October 23, 2018.

The Sixth Amendment amended the Senior Credit Agreement to, among other things: (i) increased the aggregate amount of the revolving credit facility to $1 billion (increase of $200 million over the $800 million previous commitment); (ii) increased the aggregate amount of the tranche A term loan commitments to $2 billion (increase of approximately $290 million over the $1.71 billion of outstanding borrowings prior to the amendment), and; (iii) extended the maturity date of the revolving credit and tranche A term loan facilities to October 23, 2023 from August 7, 2019.

On October 31, 2018, we added a seven-year tranche B term loan facility in the aggregate principal amount of $500 million pursuant to the Senior Credit Agreement. The tranche B term loan matures on October 31, 2025. We used the proceeds to repay borrowings under the revolving credit facility, the Securitization (as defined below), to redeem our $300 million, 3.75% Senior Notes that were scheduled to mature in 2019 and for general corporate purposes.

As of June 30, 2020, we had no borrowings outstanding pursuant to our $1 billion revolving credit facility and we had $997 million of available borrowing capacity net of $3 million of outstanding letters of credit.

Pursuant to the terms of the Sixth Amendment, the tranche A term loan, which had $1.925 billion of borrowings outstanding as of June 30, 2020, provides for eight installment payments of $12.5 million per quarter which commenced in March of 2019 and are scheduled to continue through December of 2020. Thereafter, payments of $25 million per quarter are scheduled, commencing in March of 2021 until maturity in October of 2023, when all outstanding amounts will be due.

The tranche B term loan, which had $493 million of borrowings outstanding as of June 30, 2020, provides for installment payments of $1.25 million per quarter, which commenced on March 31, 2019 and are scheduled to continue until maturity in October of 2025, when all outstanding amounts will be due.

Borrowings under the Senior Credit Agreement bear interest at our election at either (1) the ABR rate which is defined as the rate per annum equal to the greatest of (a) the lender’s prime rate, (b) the weighted average of the federal funds rate, plus 0.5% and (c) one month LIBOR rate plus 1%, in each case, plus an applicable margin based upon our consolidated leverage ratio at the end of each quarter ranging from 0.375% to 0.625% for revolving credit and term loan A borrowings and 0.75% for tranche B borrowings, or (2) the one, two, three or six month LIBOR rate (at our election), plus an applicable margin based upon our consolidated leverage ratio at the end of each quarter ranging from 1.375% to 1.625% for revolving credit and term loan A borrowings and 1.75% for the tranche B term loan. As of June 30, 2020, the applicable margins were 0.375% for ABR-based loans and 1.375% for LIBOR-based loans under the revolving credit and term loan A facilities. The revolving credit facility includes a $125 million sub-limit for letters of credit. The Senior Credit Agreement is secured by certain assets of the Company and our material subsidiaries (which generally

excludes asset classes such as substantially all of the patient-related accounts receivable of our acute care hospitals, and certain real estate assets and assets held in joint-ventures with third parties) and is guaranteed by our material subsidiaries.

The Senior Credit Agreement includes a material adverse change clause that must be represented at each draw. The Senior Credit Agreement contains covenants that include a limitation on sales of assets, mergers, change of ownership, liens and indebtedness, transactions with affiliates, dividends and stock repurchases; and requires compliance with financial covenants including maximum leverage. We are in compliance with all required covenants as of June 30, 2020 and December 31, 2019.

In late April, 2018, we entered into the sixth amendment to our accounts receivable securitization program ("Securitization") dated as of October 27, 2010 with a group of conduit lenders, liquidity banks, and PNC Bank, National Association, as administrative agent, which provides for borrowings outstanding from time to time by certain of our subsidiaries in exchange for undivided security interests in their respective accounts receivable. The sixth amendment, among other things, extended the term of the Securitization program through April 26, 2021 and increased the borrowing capacity to $450 million (from $440 million previously). In July, 2020, we entered into the seventh amendment to the Securitization which temporarily waives a minimum borrowing requirement Pursuant to the terms of our Securitization program, substantially all of the patient-related accounts receivable of our acute care hospitals ("Receivables") serve as collateral for the outstanding borrowings. We have accounted for this Securitization as borrowings. We maintain effective control over the Receivables since, pursuant to the terms of the Securitization, the Receivables are sold from certain of our subsidiaries to special purpose entities that are wholly-owned by us. The Receivables, however, are owned by the special purpose entities, can be used only to satisfy the debts of the wholly-owned special purpose entities, and thus are not available to us except through our ownership interest in the special purpose entities. The wholly-owned special purpose entities use the Receivables to collateralize the loans obtained from the group of third-party conduit lenders and liquidity banks. The group of third-party conduit lenders and liquidity banks do not have recourse to us beyond the assets of the wholly-owned special purpose entities that securitize the loans. At June 30, 2020, we had no Securitization borrowings outstanding and, pursuant to the terms and conditions of the program, we had approximately $378 million of available borrowing capacity.

As of June 30, 2020, we had combined aggregate principal of $1.1 billion from the following senior secured notes:

- $700 million aggregate principal amount of 4.75% senior secured notes due in August, 2022 ("2022 Notes") which were issued as follows:
    - $300 million aggregate principal amount issued on August 7, 2014 at par.
    - $400 million aggregate principal amount issued on June 3, 2016 at 101.5% to yield 4.35%.

- $400 million aggregate principal amount of 5.00% senior secured notes due in June, 2026 ("2026 Notes") which were issued on June 3, 2016.

Interest on the 2022 Notes is payable on February 1 and August 1 of each year until the maturity date of August 1, 2022. Interest on the 2026 Notes is payable on June 1 and December 1 until the maturity date of June 1, 2026. The 2022 Notes and 2026 Notes were offered only to qualified institutional buyers under Rule 144A and to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act of 1933, as amended (the "Securities Act"). The 2022 Notes and 2026 Notes have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

On November 26, 2018 we redeemed the $300 million aggregate principal, 3.75% Senior Notes due in 2019. The 2019 Notes were redeemed for an aggregate price equal to 100.485% of the principal amount, resulting in a premium paid of approximately $1 million, plus accrued interest to the redemption date.

At June 30, 2020, the carrying value and fair value of our debt were each approximately $3.5 billion. At December 31, 2019, the carrying value and fair value of our debt were each approximately $4.0 billion. The fair value of our debt was computed based upon quotes received from financial institutions. We consider these to be "level 2" in the fair value hierarchy as outlined in the authoritative guidance for disclosures in connection with debt instruments.

Our total debt as a percentage of total capitalization was approximately 38% at June 30, 2020 and 42% at December 31, 2019.

We expect to finance all capital expenditures and acquisitions and, if and when we determine to restart our quarterly dividend and stock repurchase programs, pay dividends and potentially repurchase shares of our common stock utilizing internally generated and additional funds. Additional funds may be obtained through: (i) borrowings under our existing revolving credit facility or through refinancing the existing Senior Credit Agreement; (ii) the issuance of other long-term debt, and/or; (iii) the issuance of equity. We believe that our operating cash flows, cash and cash equivalents, as well as access to the capital markets, provide us with sufficient capital resources to fund our operating, investing and financing requirements for the next twelve months, including the refinancing of our above-mentioned Senior Credit Agreement that is scheduled to mature in October, 2023. However, in the event we need to access

the capital markets or other sources of financing, there can be no assurance that we will be able to obtain financing on acceptable terms or within an acceptable time. Our inability to obtain financing on terms acceptable to us could have a material unfavorable impact on our results of operations, financial condition and liquidity.

Off-Balance Sheet Arrangements

During the three months ended June 30, 2020, there have been no material changes in the off-balance sheet arrangements consisting of standby letters of credit and surety bonds.

As of June 30, 2020 we were party to certain off balance sheet arrangements consisting of standby letters of credit and surety bonds which totaled $103 million consisting of: (i) $94 million related to our self-insurance programs, and; (ii) $9 million of other debt and public utility guarantees.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the quantitative and qualitative disclosures during the three months ended June 30, 2020. Reference is made to *Item 7A. Quantitative and Qualitative Disclosures About Market Risk* in our Annual Report on Form 10-K for the year ended December 31, 2019.

Item 4. Controls and Procedures

As of June 30, 2020, under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), we performed an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "1934 Act"). Based on this evaluation, the CEO and CFO have concluded that our disclosure controls and procedures are effective to ensure that material information is recorded, processed, summarized and reported by management on a timely basis in order to comply with our disclosure obligations under the 1934 Act and the SEC rules thereunder.

Changes in Internal Control Over Financial Reporting

There have been no other changes in our internal control over financial reporting or in other factors during the second quarter of 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We operate in a highly regulated and litigious industry which subjects us to various claims and lawsuits in the ordinary course of business as well as regulatory proceedings and government investigations. These claims or suits include claims for damages for personal injuries, medical malpractice, commercial/contractual disputes, wrongful restriction of, or interference with, physicians' staff privileges, and employment related claims. In addition, health care companies are subject to investigations and/or actions by various state and federal governmental agencies or those bringing claims on their behalf. Government action has increased with respect to investigations and/or allegations against healthcare providers concerning possible violations of fraud and abuse and false claims statutes as well as compliance with clinical and operational regulations. Currently, and from time to time, we and some of our facilities are subjected to inquiries in the form of subpoenas, Civil Investigative Demands, audits and other document requests from various federal and state agencies. These inquiries can lead to notices and/or actions including repayment obligations from state and federal government agencies associated with potential non-compliance with laws and regulations. Further, the federal False Claims Act allows private individuals to bring lawsuits (qui tam actions) against healthcare providers that submit claims for payments to the government. Various states have also adopted similar statutes. When such a claim is filed, the government will investigate the matter and decide if they are going to intervene in the pending case. These qui tam lawsuits are placed under seal by the court to comply with the False Claims Act's requirements. If the government chooses not to intervene, the private individual(s) can proceed independently on behalf of the government. Health care providers that are found to violate the False Claims Act may be subject to substantial monetary fines/penalties as well as face potential exclusion from participating in government health care programs or be required to comply with Corporate Integrity Agreements as a condition of a settlement of a False Claims Act matter. In September 2014, the Criminal Division of the Department of Justice ("DOJ") announced that all qui tam cases will be shared with their Division to determine if a parallel criminal investigation should be opened. The DOJ has also announced an intention to pursue civil and criminal actions against individuals within a company as well as the corporate entity or entities. In addition, health care facilities are subject to monitoring by state and federal surveyors to ensure compliance with program Conditions of Participation. In the event a facility is found to be out of compliance with a Condition of Participation and unable to remedy the alleged deficiency(s), the facility faces termination from the Medicare and Medicaid programs or compliance with a System Improvement Agreement to remedy deficiencies and ensure compliance.

The laws and regulations governing the healthcare industry are complex covering, among other things, government healthcare participation requirements, licensure, certification and accreditation, privacy of patient information, reimbursement for patient services as well as fraud and abuse compliance. These laws and regulations are constantly evolving and expanding. Further, the Legislation has added additional obligations on healthcare providers to report and refund overpayments by government healthcare programs and authorizes the suspension of Medicare and Medicaid payments "pending an investigation of a credible allegation of fraud." We monitor our business and have developed an ethics and compliance program with respect to these complex laws, rules and regulations. Although we believe our policies, procedures and practices comply with government regulations, there is no assurance that we will not be faced with the sanctions referenced above which include fines, penalties and/or substantial damages, repayment obligations, payment suspensions, licensure revocation, and expulsion from government healthcare programs. Even if we were to ultimately prevail in any action brought against us or our facilities or in responding to any inquiry, such action or inquiry could have a material adverse effect on us.

Certain legal matters are described below:

Government Investigations - UHS Behavioral Health

As previously announced in July, 2019, Universal Health Services, Inc. ("we", the "Company") had reached an agreement in principle with the Department of Justice's Civil Division, and various states' attorneys general offices, to resolve the civil aspects of the government's investigation of our behavioral health care facilities for $127 million subject to requisite approvals and preparation and execution of definitive settlement and related agreements.

On July 6, 2020, and as previously disclosed on Form 8-K as filed on July 10, 2020, pursuant to terms and amounts consistent with the previously announced agreement in principle, definitive settlement agreements ("Settlement Agreements") were fully executed thereby resolving this matter.

The Company denies the allegations raised in this matter and the settlement does not constitute an admission of facts or liability by the Company or any of its subsidiary behavioral health facilities.

Pursuant to the terms of the settlement agreements, on July 9, 2020, we made net aggregate payments of approximately $117.3 million, before accrued interest and related fees, costs and individual claims due to or on behalf of third-parties, consisting of the following:

- $88.1 million pursuant to the terms of the agreement with the Department of Justice ("DOJ") and Office of Inspector General for the United States Department of Health and Human Services ("OIG");
- $28.9 million to various individual states that participated in the settlement;

- $10.0 million in connection with the settlement of the *U.S. ex rel Escobar v. Universal Health Services, Inc. et.al. and U.S. et. al. ex rel Correa et. al. v. Universal Health Services, Inc. et. al.* matters, False Claims Act cases filed against Universal Health Services, Inc., UHS of Delaware, Inc. and HRI Clinics, Inc. d/b/a Arbour Counseling Services in U.S. District Court for the District of Massachusetts;

- less approximately $9.7 million of aggregate funds previously withheld from us in connection with the previously disclosed River Point Behavioral Health payment suspension and a suspension of payments to the Lawrence campus of Arbour Counseling Services associated with the Escobar matter. These previously withheld amounts are credited against the amounts due from us under the Settlement Agreements. As a condition of the settlement, the payment suspension at River Point will be lifted. The Lawrence campus of Arbour Counseling was previously closed by us.

In addition, we have also reached agreement in principle resolving all claims for attorneys' fees and costs of the relators, as well as any individual claims of the relators, amounting to approximately $6.0 million in the aggregate, pending finalization and execution of the remaining settlement agreements with the relators.

We also paid accrued interest on the settlement amounts for certain specified periods of approximately two months or less at annual rates of either 2.125% or 1.250% which amounted to approximately $230,000 in the aggregate.

We had previously established a pre-tax reserve in connection with the settlements and matters discussed above, which includes related fees and costs due to or on behalf of third-parties, which amounted to approximately $134 million at both March 31, 2020 and December 31, 2019. The final aggregate settlement amounts, together with accrued interest and related fees and costs, did not differ materially from the previously established reserves.

Under the settlement agreements, the United States and the participating states agree to release the Company and its behavioral health subsidiaries from any civil or administrative monetary liability arising from the Covered Conduct as specified in the Agreements. Additionally, under the settlement agreement, the United States, participating states and the relators agreed to dismiss the civil actions filed by the relators under the *qui tam* provisions of the federal False Claims Act, and the OIG agrees, conditioned upon the Company's full payment of the settlement payment, and in consideration of the Company's obligations under the Corporate Integrity Agreement (as described below), to release its permissive exclusion rights and refrain from instituting any administrative action seeking to exclude the Company or any Company behavioral health subsidiaries from participating in Medicare, Medicaid or other Federal health care programs as a result of the Covered Conduct. The Settlement Agreements contain other terms and conditions and the foregoing description of the Settlement Agreements are qualified in its entirety by reference to the full text of those agreements, which were attached as Exhibit 10.1 and 10.2 to our Form 8-K as filed on July 10, 2020 and incorporated herein by reference.

In connection with the resolution of this matter, and in exchange for the OIG's agreement not to exclude the Company and its behavioral health subsidiaries from participating in the federal health care programs, the Company entered into a five-year corporate integrity agreement (the "Corporate Integrity Agreement") with the OIG. The Corporate Integrity Agreement imposes compliance, monitoring, reporting, certification, oversight, screening and training obligations on the Company and its behavioral health facilities, certain of which have previously been implemented. The Corporate Integrity Agreement contains other terms and conditions and the foregoing description of the Corporate Integrity Agreement is qualified in its entirety by reference to the full text of that agreement, which was attached as Exhibit 10.3 to our Form 8-K as filed on July 10, 2020 and incorporated herein by reference.

DOJ investigation of Turning Point Hospital.

During the fourth quarter of 2018, we were notified that the DOJ Civil Division in conjunction with the U.S. Attorney's Office for the Northern District of Georgia and the Georgia Attorney General's Office opened an investigation of Turning Point Hospital in Moultrie, GA. The DOJ Civil Division advised us that they were primarily investigating transportation and housing financial assistance provided to patients receiving treatment at the facility. The DOJ issued a civil investigative demand to the facility requesting various documents and other information. In September, 2019, we reached a settlement in principle of this matter pending negotiation, finalization and execution of definitive settlement agreements. The settlement agreement was finalized and executed in July, 2020. As of June 30, 2020 and December 31, 2019, our financial statements included an estimated reserve in connection with the potential settlement of this matter, which did not have material impact on our results of operations and financial condition.

Litigation:

Shareholder Class Action

In December 2016 a purported shareholder class action lawsuit was filed in U.S. District Court for the Central District of California against UHS and certain UHS officers alleging violations of the federal securities laws. The case was originally filed as Heed v. Universal Health Services, Inc. et. al. (Case No. 2:16-CV-09499-PSG-JC). The court subsequently appointed Teamsters Local 456 Pension Fund and Teamsters Local 456 Annuity Fund to serve as lead plaintiffs. The case has been transferred to the U.S. District Court for the Eastern District of Pennsylvania and the style of the case has been changed to Teamsters Local 456 Pension Fund, et. al. v. Universal Health Services, Inc. et. al. (Case No. 2:17-CV-02817-LS). In September, 2017, Teamsters Local 456 Pension Fund filed an amended complaint. The amended class action complaint alleges violations of federal securities laws relating to disclosures made in public filings associated with alleged practices and operations at our behavioral health facilities. Plaintiffs seek monetary damages

for shareholders during the defined class period as a result of the decrease in share price following various public disclosures or reports. In December, 2017, we filed a motion to dismiss the amended complaint. In August, 2019, the court granted our motion to dismiss. Plaintiffs subsequently filed a motion with the court seeking leave to file a second amended complaint. In April, 2020, the court denied Plaintiffs' motion to file a second amended complaint. Plaintiffs have filed an appeal with the 3d Circuit Court of Appeals. We deny liability and intend to defend ourselves vigorously. At this time, we are uncertain as to potential liability or financial exposure, if any, which may be associated with this matter.

Shareholder Derivative Cases

In March 2017, a shareholder derivative suit was filed by plaintiff David Heed in the Court of Common Pleas of Philadelphia County. A notice of removal to the United States District Court for the Eastern District of Pennsylvania was filed (Case No. 2:17-cv-01476-LS). Plaintiff filed a motion to remand. In December 2017, the Court denied plaintiff's motion to remand and retained the case in federal court. In May, June and July 2017, additional shareholder derivative suits were filed in the United States District Court for the Eastern District of Pennsylvania. The plaintiffs in those cases are: Central Laborers' Pension Fund (Case No. 17-cv-02187-LS); Firemen's Retirement System of St. Louis (Case No. 17—cv-02317-LS); Waterford Township Police & Fire Retirement System (Case No. 17-cv-02595-LS); and Amalgamated Bank Longview Funds (Case No. 17-cv-03404-LS). The Fireman's Retirement System case has since been voluntarily dismissed. The federal court consolidated all of the cases pending in the Eastern District of Pennsylvania and appointed co-lead plaintiffs and co-lead counsel. Lead Plaintiffs filed a consolidated, amended complaint. We filed a motion to dismiss the amended complaint. In addition, a shareholder derivative case was filed in Chancery Court in Delaware by the Delaware County Employees' Retirement Fund (Case No. 2017-0475-JTL). In December 2017, the Chancery Court stayed this case pending resolution of other contemporaneous matters. Each of these cases have named certain current and former members of the Board of Directors individually and certain officers of Universal Health Services, Inc. as defendants. UHS has also been named as a nominal defendant in these cases. The derivative cases make substantially similar allegations and claims as the shareholder class action relating to practices at our behavioral health facilities and board and corporate oversight of these facilities as well as claims relating to the stock trading by the individual defendants and company repurchase of shares during the relevant time period. The cases make claims of breaches of fiduciary duties by the named board members and officers; alleged violations of federal securities laws; and common law causes of action against the individual defendants including unjust enrichment, corporate waste, abuse of control, constructive fraud and gross mismanagement. The cases seek monetary damages allegedly incurred by the company; restitution and disgorgement of profits, benefits and other compensation from the individual defendants and various forms of equitable relief relating to corporate governance matters. In August, 2019, the court granted our motion to dismiss. Plaintiffs subsequently filed a motion with the court seeking leave to file a second amended complaint. In April, 2020, the court denied Plaintiffs motion to file a second amended complaint. Plaintiffs have filed an appeal with the 3d Circuit Court of Appeals. The defendants deny liability and intend to defend these cases vigorously. At this time, we are uncertain as to potential liability or financial exposure, if any, which may be associated with these matters.

The George Washington University v. Universal Health Services, Inc., et. al.

In December 2019, The George Washington University ("University") filed a lawsuit in the Superior Court for the District of Columbia against Universal Health Services, Inc. as well as certain subsidiaries and individuals associated with the ownership and management of The George Washington University Hospital ("GW Hospital") in Washington, D.C. (case No. 2019 CA 008019 B). The lawsuit claims that UHS failed to provide sufficient financial compensation to the University under the terms of various agreements entered into in 1997 between the University and UHS for the joint venture ownership of GW Hospital. The lawsuit includes claims for breach of contract, breach of fiduciary duty, and unjust enrichment. We deny liability and intend to defend this matter vigorously. We filed a motion to dismiss the complaint. In June, 2020, the Court granted the motion in part dismissing the majority of the University's claims. At this time, we are uncertain as to potential liability or financial exposure, if any, which may be associated with this matter.

Disproportionate Share Hospital Payment Matter:

In late September, 2015, many hospitals in Pennsylvania, including certain of our behavioral health care hospitals located in the state, received letters from the Pennsylvania Department of Human Services (the "Department") demanding repayment of allegedly excess Medicaid Disproportionate Share Hospital payments ("DSH"), primarily consisting of managed care payments characterized as DSH payments, for the federal fiscal year ("FFY") 2011 amounting to approximately $4 million in the aggregate. Since that time, certain of our behavioral health care hospitals in Pennsylvania have received similar requests for repayment for alleged DSH overpayments for FFYs 2012 through 2015. For FFY 2012, the claimed overpayment amounts to approximately $4 million. For FY 2013, FY 2014 and FY 2015 the initial claimed overpayments and attempted recoupment by the Department were approximately $7 million, $8 million and $7 million, respectively. The Department has agreed to a change in methodology which, upon confirmation of the underlying data being accepted by the Department, could reduce the initial claimed overpayments for FY 2013, FY 2014 and FY 2015 to approximately $2 million, $2 million and $3 million, respectively. We filed administrative appeals for all of our facilities contesting the recoupment efforts for FFYs 2011 through 2015 as we believe the Department's calculation methodology is inaccurate and conflicts with applicable federal and state laws and regulations. The Department has agreed to postpone the recoupment of the state's share for FY 2011 to 2013 until all hospital appeals are resolved but started recoupment of the federal share. For FY 2014 and FY 2015, the Department has initiated the recoupment of the alleged overpayments. Starting in FFY 2016, the first full fiscal year after the

January 1, 2015 effective date of Medicaid expansion in Pennsylvania, the Department no longer characterized managed care payments received by the hospitals as DSH payments. We can provide no assurance that we will ultimately be successful in our legal and administrative appeals related to the Department's repayment demands. If our legal and administrative appeals are unsuccessful, our future consolidated results of operations and financial condition could be adversely impacted by these repayments.

Other Matters:

Various other suits, claims and investigations, including government subpoenas, arising against, or issued to, us are pending and additional such matters may arise in the future. Management will consider additional disclosure from time to time to the extent it believes such matters may be or become material. The outcome of any current or future litigation or governmental or internal investigations, including the matters described above, cannot be accurately predicted, nor can we predict any resulting penalties, fines or other sanctions that may be imposed at the discretion of federal or state regulatory authorities. We record accruals for such contingencies to the extent that we conclude it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. No estimate of the possible loss or range of loss in excess of amounts accrued, if any, can be made at this time regarding the matters described above or that are otherwise pending because the inherently unpredictable nature of legal proceedings may be exacerbated by various factors, including, but not limited to: (i) the damages sought in the proceedings are unsubstantiated or indeterminate; (ii) discovery is not complete; (iii) the matter is in its early stages; (iv) the matters present legal uncertainties; (v) there are significant facts in dispute; (vi) there are a large number of parties, or; (vii) there is a wide range of potential outcomes. It is possible that the outcome of these matters could have a material adverse impact on our future results of operations, financial position, cash flows and, potentially, our reputation.

Item 1A. Risk Factors

Our Annual Report on Form 10-K for the year ended December 31, 2019 and our Form 10-Q for the quarterly period ended March 31, 2020 (the "first quarter 2020 Form 10-Q") include listings of risk factors to be considered by investors in our securities. Except for the risk factors disclosed in Part II, Item 1A of the first quarter 2020 Form 10-Q, which is hereby incorporated by reference into this Part II, Item 1A of this Form 10-Q, there have been no material changes in our risk factors from those set forth in our Annual Report on Form 10-K for the year ended December 31, 2019.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On July 25, 2019, our Board of Directors authorized a $1.0 billion increase to our stock repurchase program, which increased the aggregate authorization to $2.7 billion from the previous $1.7 billion authorization approved in various increments since 2014. Pursuant to this program, which currently has an aggregate available repurchase authorization of $559.6 million, shares of our Class B Common Stock may be repurchased, from time to time as conditions allow, on the open market or in negotiated private transactions. There is no expiration date for our stock repurchase program.

As reflected below, in conjunction with our previously approved stock repurchase programs, during the three-month period ended June 30, 2020, no shares were repurchased pursuant to the terms of our stock repurchase program, since as previously mentioned herein, as part of our various COVID-19 initiatives, we have suspended our stock repurchase program. During the three-month period ended June 30, 2020, 7,314 shares were repurchased in connection with income tax withholding obligations resulting from the vesting of restricted stock grants.

During the period of April 1, 2020 through June 30, 2020, we repurchased the following shares:

	Additional Dollars Authorized For Repurchase (in thousands)	Total number of shares purchased	Total number of shares cancelled	Average price paid per share for forfeited restricted shares	Total Number of shares purchased as part of publicly announced programs	Average price paid per share for shares purchased as part of publicly announced program	Aggregate purchase price paid for shares purchased as part of publicly announced program (in thousands)	Maximum number of shares that may yet be purchased under the program	Maximum number of dollars that may yet be purchased under the program (in thousands)
April, 2020	$ -	7,099	1,514	$ 0.01	—	—	—	—	$ 559,563
May, 2020	—	215	4,239	$ 0.01	—	—	—	—	$ 559,563
June, 2020	—	—	2,042	$ 0.01	—	—	—	—	$ 559,563
Total April through June, 2020	$ -	7,314	7,795	$ 0.01	—	N/A	$ —		

Dividends

As part of our various COVID-19 initiatives, we have suspended declaration and payment of quarterly dividends.

Item 6. Exhibits

10.1	Settlement Agreement among: (i) the United States of America, acting through the United States Department of Justice and on behalf of the Office of Inspector General (OIG-HHS) of the Department of Health and Human Services (HHS); the Defense Health Agency (DHA), acting on behalf of the TRICARE Program; the Office of Personnel Management (OPM), which administers the Federal Employees Health Benefits Program (FEHBP); and the United States Department of Veteran Affairs (VA) (collectively, the United States); (ii) Universal Health Services, Inc. ("UHS, Inc.") and UHS of Delaware, Inc. ("UHS of Delaware, Inc."), acting on behalf of the entities listed on Exhibits A and B, (collectively the "Defendants" or "UHS"); and (iii) various individuals (collectively, the "Relators"), previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 6, 2020, is incorporated herein by reference.
10.2	Form of Settlement Agreement between various states and Universal Health Services, Inc. and UHS of Delaware, Inc., acting on behalf of the entities listed on Exhibits A and B, previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated July 6, 2020, is incorporated herein by reference.
10.3	Corporate Integrity Agreement between the Office of Inspector General of the Department of Health and Human Services and Universal Health Services, Inc. and UHS of Delaware, Inc., previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K dated July 6, 2020, is incorporated herein by reference.
10.4	Universal Health Services, Inc. 2020 Omnibus Stock and Incentive Plan, previously filed as Exhibit 99.1 to the Company's Registration Statement on Form S-8 (File No. 333-238880) dated June 2, 2020, is incorporated herein by reference.
10.5	Form of Stock Option Award Agreement under the Universal Health Services, Inc. 2020 Omnibus Stock and Incentive Plan.
10.6	Form of Restricted Stock Award Agreement under the Universal Health Services, Inc. 2020 Omnibus Stock and Incentive Plan.
10.7	Form of Restricted Stock Unit Award Agreement under the Universal Health Services, Inc. 2020 Omnibus Stock and Incentive Plan.
31.1	Certification of the Company's Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of the Company's Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.
32.1	Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document –the instance document does not appear in the Interactive Data file because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, has been formatted in Inline XBRL.

Signatures

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 7, 2020

/s/ ALAN B. MILLER

Alan B. Miller, Chairman of the Board and Chief Executive Officer (Principal Executive Officer)

/s/ STEVE FILTON

Steve Filton, Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Granted To:	###PARTICIPANT_NAME###
Address:	###HOME_ADDRESS###
Grant Date:	###GRANT_DATE###
Granted Amount:	###TOTAL_AWARDS###
Grant Type:	###DICTIONARY_AWARD_NAME###
Option No:	###EMPLOYEE_GRANT_NUMBER###
Plan:	2020 OMNIBUS STOCK AND INCENTIVE PLAN
Expiration Date:	###EXPIRY_DATE###
Exercise Price Per Share:	###GRANT_PRICE###

UNIVERSAL HEALTH SERVICES, INC.
2020 OMNIBUS STOCK AND INCENTIVE PLAN
STOCK OPTION AWARD AGREEMENT

This Stock Option Award Agreement (the "***Award Agreement***"), made as of the date specified above (the "***Grant Date***"), by and between Universal Health Services, Inc., a Delaware corporation (the "***Company***"), and ###PARTICIPANT_NAME### (the "***Participant***"), residing at the address ###HOME_ADDRESS### set forth above.

W I T N E S S E T H:

WHEREAS, pursuant to the Universal Health Services, Inc. 2020 Omnibus Stock and Incentive Plan, as amended to the Grant Date (the "***Plan***"), the Company desires to afford the Participant an opportunity to purchase shares of the Company's Class B Common Stock, par value $.01 per share (the "***Common Stock***"), as hereinafter provided. Unless otherwise defined herein, capitalized terms shall have the meanings assigned under the Plan.

NOW, THEREFORE, in consideration of the premises and of the mutual promises hereinafter contained, the parties hereto agree as follows:

1. **The Award**.

The Company hereby awards to the Participant, as of the Grant Date, an option to purchase up to the number of shares of Common Stock ("***Shares***") set forth above (the "***Option***"), at the exercise price per Share set forth above (the "***Exercise Price***"), and subject to the terms and conditions set forth above, in this Award Agreement and in the Plan, the provisions of which are incorporated herein by reference. The Option is not intended to be an Incentive Stock Option.

2. **Vesting of Option**.

2.1 **Dates of Exercise**. Except as otherwise provided in this Award Agreement, the Option shall vest and become exercisable for Shares in one or more installments as follows:

###VEST_SCHEDULE_TABLE###

As the Option becomes exercisable for such installments, those installments shall accumulate, and the Option shall remain vested and exercisable for the accumulated installments **until** the Expiration Date or sooner termination of the Option term under Sections 3 or 7 below.

2.2 **Term of Option**. The Option shall have a maximum term of five (5) years measured from the Grant Date and shall accordingly expire at 11:59 PM Eastern Time on the Expiration Date, unless sooner terminated in accordance with Sections 3 or 7 below.

3. **Termination of Service**.

The Option term specified in Section 2.2 shall terminate (and the Option shall cease to be outstanding) prior to the Expiration Date should any of the following provisions become applicable, unless otherwise provided by the Committee (or its delegate) in its sole discretion:

3.1 **General Rule**. Should the Participant cease to provide services to the Company (or any Subsidiary or Affiliate) in the capacity of an Employee, Director or Consultant (collectively referred to herein as "***Service***") for any reason (other than death, Disability or Cause) while the Option is outstanding, then the vested Option shall remain exercisable until the earlier of (i) the expiration of the three (3)-month period measured from the date of such cessation of Service and (ii) the Expiration Date. The Participant's right to vest in the Option under the Plan, if any, will terminate as of the date of the Participant's cessation of Service for any reason (including death, Disability and for Cause), and the Participant shall forfeit all Options which are not, as of such date, vested.

3.2 **Death or Disability of the Participant**. Should the Participant cease Service by reason of death or Disability while the Option is outstanding, then the Option shall remain exercisable until the earlier of (i) the expiration of the twelve (12)-month period measured from the date of such cessation of Service and (ii) the Expiration Date.

3.3 **Number of Exercisable Shares Post-Service**. During the applicable post-Service exercise period, the Option may not be exercised in the aggregate for more than the number of vested Options for which the Option is exercisable on the date of the Participant's cessation of Service. Upon the expiration of the applicable exercise period or (if earlier) upon the Expiration Date, the Option shall terminate and cease to be outstanding for any Shares for which the Option has not been exercised.

3.4 **Termination for Cause**. Should the Participant's Service be terminated for Cause or should the Participant engage in Cause while the Option is outstanding, then the Option (whether or not vested) shall terminate immediately and cease to be outstanding. In the event the Participant's Service is suspended pending an investigation of whether the Participant's Service will be terminated for Cause, all of the Participant's rights under the Option, including the right to exercise the Option, shall be suspended during the investigation period.

3.5 **Cessation of Service**. For purposes of this Award Agreement, the Participant's date of cessation of Service shall mean the date upon which the Participant ceases active performance of services for the Company, a Subsidiary or Affiliate, as determined by the Company, including following the provision of a notification of termination or resignation from Service and shall be determined solely by this

Award Agreement and without reference to any other agreement, written or oral, including the Participant's employment agreement (if any). Thus, in the event of termination of the Participant's Service (regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where the Participant is employed or the terms of the Participant's employment agreement, if any), and unless otherwise expressly provided in this Award Agreement or determined by the Company, (i) the Participant's right to vest in the Option under the Plan, if any, will terminate as of such date and will not be extended by any notice period (e.g., the Participant's period of Service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where the Participant is employed or the terms of Participant's employment agreement, if any), and (ii) the period (if any) during which the Participant may exercise the Option after such termination of the Participant's Service will commence on the date Participant ceases active performance of services and will not be extended by any notice period mandated under employment laws in the jurisdiction where the Participant is employed or terms of the Participant's employment agreement, if any; the Committee shall have the exclusive discretion to determine when the Participant is no longer actively performing services for purposes of the Option (including whether the Participant may still be considered to be providing services while on a leave of absence).

3.6 **Part-Time Work**. To the extent permissible under applicable local law, if the Participant who is employed as a full-time Employee commences working on a part-time or per diem basis, and unless otherwise expressly provided in this Award Agreement or determined by the Company, (i) the Participant's right to vest in the Option under the Plan, if any, will terminate as of such date and will not be extended by any notice period, and the Participant shall forfeit all Options which are not, as of such date, vested, and (ii) the Participant shall have three (3) months after such date during which the Participant may exercise the Option and such three-month period will not be extended by any notice period mandated under employment laws in the jurisdiction where the Participant is employed or terms of the Participant's employment agreement, if any; the Committee shall have the exclusive discretion to determine when the Participant is no longer working as a full-time Employee for purposes of the Option.

4. **Exercise of Option**.

4.1 **Method of Exercise.** In order to exercise the Option with respect to all or any part of the Shares for which the Option is at the time vested and exercisable, the Participant (or any other person or persons exercising the Option) must take the following actions:

(a) Execute and deliver to the Company a notice of exercise (the "***Notice of Exercise***") in the form authorized by the Company, which may be electronic or written. As of the date of this Award Agreement, the Participant may execute and deliver the Notice of Exercise to the Company through the Company's third-party administrator (which is currently Shareworks by Morgan Stanley) by logging into the Participant's Shareworks account at https://uhs.solium.com, and following instructions to execute the exercise. Each Notice of Exercise must be received by the Company prior to the termination of the Option as set forth in Sections 2.2, 3 or 7 of this Award Agreement.

(b) Pay the aggregate Exercise Price for the purchased Shares in one or more of the following forms:

(i) cash or check which, in the Company's sole discretion, shall be made payable to a Company-designated brokerage firm or the Company; or

(ii) if permitted by applicable law and authorized by the Committee in its sole discretion, by a cashless exercise by which the Company issues and delivers net shares based on the Fair Market Value of the Common Stock on the date of exercise of the Option.

Notwithstanding the foregoing, the Company reserves the right to restrict the methods of payment of the Exercise Price if necessary to comply with local law, as determined by the Company in its sole discretion.

(c) Furnish to the Company appropriate documentation that the person or persons exercising the Option (if other than the Participant) have the right to exercise the Option.

(d) Make appropriate arrangements with the Company (or Subsidiary or Affiliate employing or retaining the Participant) for the satisfaction of all applicable Tax-Related Items requirements applicable to the Option exercise.

As soon as practical after the exercise date, the Company shall issue to or on behalf of the Participant (or any other person or persons exercising the Option) the purchased Shares (as evidenced by an appropriate entry on the books of the Company or a duly authorized transfer agent of the Company), subject to the appropriate legends and/or stop transfer instructions.

Notwithstanding any other provisions of the Plan, this Award Agreement or any other agreement to the contrary, if at the time this Option is exercised, the Participant is indebted to the Company (or any Subsidiary or Affiliate) for any reason, the following actions shall be taken, as deemed appropriate by the Committee:

(i) any Shares to be issued upon such exercise shall automatically be pledged against Participant's outstanding indebtedness; and

(ii) if this Option is exercised in accordance with Section 4.1(b)(ii) above, the after-tax proceeds of the sale of the Participant's Shares shall automatically be applied to the outstanding balance of the Participant's indebtedness.

4.2 **Restrictions on Exercise of the Option and Issuance of Shares.** The exercise of the Option and issuance of Shares upon such exercise shall be subject to compliance with all applicable requirements of U.S. federal, state or foreign law with respect to such securities. No Shares may be issued hereunder if the issuance of such Shares would constitute a violation of any applicable U.S. federal, state or foreign securities laws or other laws or regulations or the requirements of any stock exchange or market system upon which the Shares may then be listed. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance of any Shares subject to the Option shall relieve the Company of any liability in respect of the failure to issue such Shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of the Option, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company. Further, regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Option has been registered under the Securities Act or has been registered or qualified under the securities laws of any State, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any State, or any other law.

4.3 **Fractional Shares.** In no event may the Option be exercised for any fractional Shares.

4.4 **Excess Shares**. If the Shares covered by this Award Agreement exceed, as of the Grant Date, the number of Shares which may without stockholder approval be issued under the Plan, then the Option shall be void with respect to those excess Shares, unless stockholder approval of an amendment sufficiently increasing the number of Shares issuable under the Plan is obtained in accordance with the provisions of the Plan.

5. **Tax Withholding and Advice**.

5.1 **In General.** The Participant acknowledges that, regardless of any action taken by the Company or, if different, the Participant's employer (the "***Employer***"), the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to the Participant's participation in the Plan and legally applicable to the Participant ("***Tax-Related Items***"), is and remains the Participant's responsibility and may exceed the amount actually withheld by the Company or the Employer. The Participant further acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Option, including, but not limited to, the grant, vesting or exercise of the Option, the subsequent sale of Shares acquired pursuant to such exercise and the receipt of any dividends; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Option to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if the Participant is subject to Tax-Related Items in more than one jurisdiction between the Grant Date and the date of any relevant taxable or tax withholding event, as applicable, the Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

5.2 **Withholding of Taxes.** Prior to the relevant taxable or tax withholding event, as applicable, the Participant agrees to make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items (including hypothetical withholding tax amounts if the Participant is covered under a Company tax equalization policy). In this regard, the Participant authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following, subject to Section 14.3 of the Plan:

(a) withholding from the Participant's wages or other cash compensation paid to the Participant by the Company or the Employer; or

(b) withholding a number of whole Shares otherwise deliverable to the Participant upon exercise of the Option having a Fair Market Value equal to the Tax-Related Items obligations, as determined by the Company as of the date on which the Tax-Related Items obligations arise; or

(c) withholding from the proceeds of the sale of Shares acquired upon exercise of the Option, either through a voluntary sale (specifically including where this Option is exercised in accordance with Section 4.1(b)(ii) above) or through a mandatory sale arranged by the Company (on the Participant's behalf pursuant to this authorization) without further consent; or

(d) direct payment from the Participant.

Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates, including maximum applicable rates, in which case the Participant may receive a refund of any over-withheld amount in cash and will have no entitlement to the Share equivalent. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, the Participant is deemed to have been

issued the full number of Shares subject to the exercised Option, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items.

5.3 **Tax Advice**. The Participant represents, warrants and acknowledges that the Company has made no warranties or representations to the Participant with respect to the income tax, social contributions or other tax consequences of the transactions contemplated by this Award Agreement, and the Participant is in no manner relying on the Company or the Company's representatives for an assessment of such tax consequences. THE PARTICIPANT UNDERSTANDS THAT THE TAX AND SOCIAL SECURITY LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE PARTICIPANT IS HEREBY ADVISED TO CONSULT WITH HIS OR HER OWN PERSONAL TAX, LEGAL AND FINANCIAL ADVISORS REGARDING THE PARTICIPANT'S PARTICIPATION IN THE PLAN BEFORE TAKING ANY ACTION RELATED TO THE PLAN. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.

6. **Authorization to Release Necessary Personal Information**.

The Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Participant's personal data as described in this Award Agreement and any other Option grant materials ("Data") by and among, as applicable, the Employer, the Company and its Subsidiaries and Affiliates for the exclusive purpose of implementing, administering and managing the Participant's participation in the Plan.

The Participant understands that the Company and the Employer may hold certain personal information about the Participant, including, but not limited to, the Participant's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Options or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in the Participant's favor, for the exclusive purpose of implementing, administering and managing the Plan.

The Company may retain the services of an equity compensation plan recordkeeper (the "Recordkeeper") to facilitate administration of the Plan. In such event, the Participant understands that Data will be transferred to the Recordkeeper or such other stock plan service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration and management of the Plan. The Participant understands that the recipients of the Data may be located in the United States or elsewhere, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than the Participant's country. The Participant understands that if he or she resides outside the United States, he or she may request a list with the names and addresses of any potential recipients of the Data by contacting the Company's stock administration department. The Participant authorizes the Company, the Recordkeeper and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing the Participant's participation in the Plan. The Participant understands that Data will be held only as long as is necessary to implement, administer and manage the Participant's participation in the Plan. The Participant understands that if he or she resides outside the United States, he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting the Company's stock administration department. Further, the Participant understands that he or she is providing the consents herein on a purely voluntary basis. If the Participant does not consent, or if the Participant later seeks to revoke his or her consent, his or her employment status or service and career with the Employer will

not be adversely affected; the only adverse consequence of refusing or withdrawing the Participant's consent is that the Company would not be able to grant the Participant Options or other equity awards or administer or maintain such awards. Therefore, the Participant understands that refusing or withdrawing his or her consent may affect the Participant's ability to participate in the Plan. For more information on the consequences of the Participant's refusal to consent or withdrawal of consent, the Participant understands that he or she may contact the Company's stock administration department.

7. **Effect of Change in Control on Award**.

This Award Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

7.1 **Acceleration of Vesting.** In the event of a Change in Control, the Option, to the extent outstanding at that time but not otherwise fully exercisable, shall automatically accelerate so that the Option shall, immediately prior to the effective date of the Change in Control, become exercisable for all of the Shares at the time subject to the Option and may be exercised for any or all of those Shares as fully-vested Shares. No such acceleration of the Option, however, shall occur if and to the extent: (i) the Option is, in connection with the Change in Control, assumed or otherwise continued in full force and effect by the successor corporation (or parent thereof) or replaced with a comparable option to purchase shares of the capital stock of the successor corporation (or parent thereof) pursuant to the terms of the Change in Control or (ii) the Option is replaced with a cash incentive program of the successor corporation which preserves the spread existing at the time of the Change in Control on the Shares for which the Option is not otherwise at that time exercisable (the excess of the Fair Market Value of those Shares over the aggregate Exercise Price payable for such Shares) and provides for subsequent pay-out in accordance with the same vesting schedule set forth in Section 2.1. The determination of option comparability under clause (i) shall be made by the Committee, and such determination shall be final, binding and conclusive.

7.2 **Termination of the Option Upon Change in Control**. Immediately prior to the consummation of the Change in Control, the Option shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof) or otherwise expressly continued in full force and effect pursuant to the terms of the Change in Control.

7.3 **Involuntary Termination After Change in Control**. In the event that the Option is, in connection with the Change in Control, either assumed by the successor corporation (or parent thereof) or replaced with a comparable option of the successor corporation (or parent thereof) and, within eighteen (18) months after the effective date of the Change in Control, the Participant's Service terminates due to Involuntary Termination, the Option, to the extent outstanding at that time but not otherwise fully exercisable, shall automatically become vested in full upon the effective date of the Involuntary Termination; *provided*, *however*, that the portion of the Option whose vesting accelerates as a result of the Participant's Involuntary Termination (the "***Accelerated Option***") shall become exercisable only upon the effective date of a full general release signed by the Participant in a form prepared by or otherwise acceptable to Company (in its sole discretion), releasing all claims, known or unknown, that the Participant may have against Company and its officers, directors, employees and affiliated companies, arising out of or in any way related to the Participant's employment or service or termination of employment or service with Company and with respect to which the period for revocation, if any, of such release has lapsed on or before the 60th day following the date of the Participant's termination of employment or service without the release having been revoked. If the Accelerated Option becomes exercisable in accordance with the preceding sentence, it may be exercised in accordance with Section 4 for the remainder of the period specified in Section 3.1.

8. **Adjustments for Changes in Capital Structure**.

The Participant acknowledges that the Option is subject to modification and termination in certain events as provided in this Award Agreement and Article 10 of the Plan. Upon the occurrence of an event described in Article 10 of the Plan, any and all new, substituted or additional securities or other property to which a holder of a Share issuable in settlement of the Option would be entitled shall be immediately subject to the Award Agreement and included within the meaning of the term "Shares" for all purposes of the Option. The Participant shall be notified of such adjustments and such adjustments shall be binding upon the Company and the Participant.

9. **No Entitlement or Claims for Compensation**.

In accepting the Option, the Participant acknowledges, understands and agrees that:

9.1 the Plan is established voluntarily by the Company, it is discretionary in nature, and may be amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;

9.2 the grant of the Option is voluntary and occasional and does not create any contractual or other right to receive future grants of options, or benefits in lieu of options, even if options have been granted in the past;

9.3 all decisions with respect to future Option or other grants, if any, will be at the sole discretion of the Company;

9.4 the Option grant and the Participant's participation in the Plan shall not create a right to employment or be interpreted as forming an employment or service contract with the Company, the Employer or any Subsidiary or Affiliate, and shall not interfere with the ability of the Company, the Employer or any Subsidiary or Affiliate, as applicable, to terminate the Participant's employment or service relationship (if any);

9.5 the Participant is voluntarily participating in the Plan;

9.6 the Option and any Shares acquired under the Plan are not intended to replace any pension rights or compensation;

9.7 the Option and any Shares acquired under the Plan and the income and value of same are not part of normal or expected compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;

9.8 the future value of the Shares underlying the Option is unknown, indeterminable, and cannot be predicted with certainty;

9.9 if the underlying Shares do not increase in value, the Option will have no value;

9.10 if the Participant exercises the Option and acquires Shares, the value of such Shares may increase or decrease in value, even below the Exercise Price;

9.11 no claim or entitlement to compensation or damages shall arise from forfeiture of the Option resulting from the termination of the Participant's Service (for any reason whatsoever, whether or not later found to be invalid or in breach of employment laws in the jurisdiction where the Participant is

employed or the terms of the Participant's contact of employment, if any), and in consideration of the grant of the Option to which the Participant is otherwise not entitled, the Participant irrevocably agrees never to institute any such claim against the Company, any of its Subsidiaries or Affiliates or the Employer, waives his or her ability, if any, to bring any such claim, and releases the Company, its Subsidiaries and Affiliates and the Employer from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, the Participant shall be deemed irrevocably to have agreed not to pursue such claim and agrees to execute any and all documents necessary to request dismissal or withdrawal of such claim; and

9.12 unless otherwise provided in the Plan or determined by the Company in its discretion, the Option and the benefits evidenced by this Award Agreement do not create any entitlement to have the Option or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares of the Company.

10. **Rights as a Stockholder**.

The Participant shall not have any stockholder rights with respect to the Shares until the Participant exercises the Option, pays the Exercise Price and the purchased Shares are issued or the purchased Shares are deposited in a brokerage account (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date the Shares are issued, except as provided in Section 8.

11. **Miscellaneous Provisions**.

11.1 **Amendment**. The Committee may amend this Award Agreement at any time; provided, however, that no such amendment may adversely affect the Participant's rights under this Award Agreement without the consent of the Participant, except to the extent such amendment is desirable or necessary to comply with applicable law, including, but not limited to, Section 409A of the Code as further provided in the Plan. No amendment or addition to this Award Agreement shall be effective unless in writing.

11.2 **Nontransferability of the Option**. Prior to the issuance of Shares upon exercise, no right or interest of the Participant in the Option nor any Shares subject to the Option shall be in any manner pledged, encumbered, or hypothecated to or in favor of any party other than the Company or a Subsidiary or Affiliate or shall become subject to any lien, obligation, or liability of such Participant to any other party other than the Company, or a Subsidiary or Affiliate. Except as otherwise provided by the Committee, no Option shall be assigned, transferred or otherwise disposed of other than by will or the laws of descent and distribution. All rights with respect to the Option shall be exercisable during the Participant's lifetime only by the Participant or the Participant's guardian or legal representative.

11.3 **Further Instruments and Imposition of Other Requirements**. The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Award Agreement. The Company reserves the right to impose other requirements on Participant's participation in the Plan, on the Option and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. Furthermore, the Participant acknowledges that the laws of the country in which the Participant is working at the time of grant and exercise of the Option or the sale of Shares received pursuant to this Award Agreement (including any rules or regulations governing securities, foreign exchange, tax, labor, or other matters) may subject the Participant to additional procedural or regulatory requirements that the Participant is and will be solely responsible for and must fulfill.

11.4 **Binding Effect**. This Award Agreement shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer set forth herein, be binding upon the Participant and the Participant's heirs, executors, administrators, successors and permitted assigns.

11.5 **Notices**. Any notice required to be given or delivered to the Company under the terms of this Award Agreement shall be in writing and addressed to the Company at its principal corporate offices. Any notice required to be given or delivered to the Participant shall be in writing and addressed to the Participant at the address maintained for the Participant in the Company's records or at the address of the local office of the Company or of a Subsidiary or Affiliate at which the Participant works.

11.6 **Construction of Award Agreement**. This Award Agreement, and the Option evidenced hereby (a) are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan, and (b) constitute the entire agreement between the Participant and the Company on the subject matter hereof and supersede all proposals, written or oral, and all other communications between the parties related to the subject matter. All decisions of the Committee with respect to any question or issue arising under this Award Agreement or the Plan shall be conclusive and binding on all persons having an interest in this Option.

11.7 **Governing Law**. The interpretation, performance and enforcement of this Award Agreement shall be governed by the laws of the State of Delaware, U.S.A. without regard to the conflict-of-laws rules thereof or of any other jurisdiction.

11.8 **Arbitration; Choice of Forum**. BY ACCEPTING THIS AWARD, THE PARTICIPANT UNDERSTANDS AND AGREES THAT THE ARBITRATION AND CHOICE OF FORUM PROVISIONS SET FORTH IN SECTION 14.14 OF THE PLAN, WHICH ARE EXPRESSLY INCORPORATED HEREIN BY REFERENCE AND WHICH, AMONG OTHER THINGS, PROVIDE THAT ANY DISPUTE, CONTROVERSY OR CLAIM BETWEEN THE COMPANY AND THE PARTICIPANT ARISING OUT OF OR RELATING TO OR CONCERNING THE PLAN OR THIS AWARD AGREEMENT SHALL BE FINALLY SETTLED BY ARBITRATION IN PHILADELPHIA, PENNSYLVANIA, PURSUANT TO THE TERMS THEREOF, SHALL APPLY.

11.9 **Compliance.**

(a) **Conformity to Securities Laws**. The Participant acknowledges that the Plan and this Award Agreement are intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, and State securities laws and regulations. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the Option is granted and may be exercised, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and this Award Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

(b) **Section 409A.** Notwithstanding any other provision of the Plan, this Award Agreement, the Plan, this Award Agreement shall be interpreted in accordance with, and incorporate the terms and conditions required by, Section 409A of the Code (with any Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the date hereof (***"Section 409A"***)). The Company reserves the right, to the extent the Company deems necessary or advisable in its sole discretion, to unilaterally amend or modify the Plan or this Award Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, including amendments or actions that would result in a reduction in benefits payable under the Option, as the Committee determines are necessary

or appropriate to ensure that this Option qualifies for exemption from, or complies with the requirements of, Section 409A or mitigate any additional tax, interest and/or penalties or other adverse tax consequences that may apply under Section 409A; provided, however, that the Company makes no representation that the Option will be exempt from, or will comply with, Section 409A, and makes no undertakings to preclude Section 409A from applying to the Option or to ensure that it complies with Section 409A.

(c) **Limitations Applicable to Section 16 Persons.** Notwithstanding any other provision of the Plan or this Award Agreement, if the Participant is subject to Section 16 of the Exchange Act, the Plan, the Option and this Award Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, this Award Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

11.10 **Administration.** The Committee shall have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon the Participant, the Company and all other interested persons. No member of the Committee or the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Award Agreement or the Option.

11.11 **Counterparts.** This Award Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

11.12 **Severability.** If any provision of this Award Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Award Agreement shall be deemed valid and enforceable to the full extent possible.

11.13 **Language**. If the Participant has received this Award Agreement or any other document related to the Plan in a language other than English and the meaning of the translated version is different from the English version, the English version will control.

11.14 **Electronic Delivery**. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an online or electronic system established and maintained by the Company or a third party designated by the Company.

11.15 **Waiver**. The Participant acknowledges that the Company's waiver of a breach of any provision of this Award Agreement shall not operate or be construed as a waiver of any other provision of this Award Agreement, or of any subsequent breach by the Participant or any other participant.

11.16 **Clawback/Recovery**. The Options shall be subject to the Clawback/Recovery provisions contained in Section 14.17 of the Plan.

By his or her signature below or by electronic acceptance or authentication in a form authorized by the Company (including by electronically accepting this Award Agreement through his or her Shareworks account with Morgan Stanley), the Participant agrees to be bound by the terms and conditions of the Plan and this Award Agreement. The Participant has reviewed this Award Agreement and the Plan in their

entirety, has had an opportunity to obtain the advice of counsel prior to executing this Award Agreement and fully understands all provisions of this Award Agreement and the Plan. The Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan or relating to the Option.

UNIVERSAL HEALTH SERVICES, INC.

By: _____

Print Name:

Title:

PARTICIPANT

By: _____

Print Name:###PARTICIPANT_NAME###

Exhibit 10.6

Granted To:	###PARTICIPANT_NAME###
Address:	###HOME_ADDRESS###
Grant Date:	###GRANT_DATE###
Granted Amount:	###TOTAL_AWARDS###
Grant Type:	###DICTIONARY_AWARD_NAME###
RSA No:	###EMPLOYEE_GRANT_NUMBER###
Plan:	2020 OMNIBUS STOCK AND INCENTIVE PLAN

UNIVERSAL HEALTH SERVICES, INC.
2020 OMNIBUS STOCK AND INCENTIVE PLAN

RESTRICTED STOCK AWARD AGREEMENT

This Restricted Stock Award Agreement (the "***Award Agreement***"), made as of the date specified above (the "***Grant Date***"), by and between Universal Health Services, Inc., a Delaware corporation (the "***Company***"), and ###PARTICIPANT_NAME### (the "***Participant***"), residing at the address ###HOME_ADDRESS### set forth above.

W I T N E S S E T H:

WHEREAS, pursuant to the Universal Health Services, Inc. 2020 Omnibus Stock and Incentive Plan, as amended to the Grant Date (the "***Plan***"), the Company desires to grant to the Participant an award of restricted shares of Common Stock (the "***Restricted Shares***"), as hereinafter provided. Unless otherwise defined herein, capitalized terms shall have the meanings assigned under the Plan.

NOW, THEREFORE, in consideration of the premises and of the mutual promises hereinafter contained, the parties hereto agree as follows:

1. **The Award**.

1.1 **Grant of Restricted Shares**. Pursuant to the Plan, the Company has granted to the Participant a Restricted Stock Award consisting of the number of Restricted Shares set forth above. Except as otherwise provided in Section 1.2 below, all of the Restricted Shares will be unvested shares (the "***Unvested Shares***") as of the Grant Date. In accordance with the vesting schedule set forth in Section 1.2 below, all of the Restricted Shares will become vested shares (the "***Vested Shares***") from time to time after the Grant Date so long as the Participant's Service (as defined below) continues. Unless otherwise provided by the Committee (or its delegate) in its sole discretion, the vesting of Restricted Shares will cease immediately upon (a) the termination of the Participant's Service for any reason or (b) with respect to a full-time Employee, the cessation of such Participant's employment on a full-time basis. No Restricted Shares will vest in respect of any period between (x) the date of termination of the Participant's Service or the date of cessation of a full-time Employee's employment on a full-time basis, as applicable, and (y) the immediately preceding vesting date.

1.2 **Vesting Schedule**. Except as otherwise provided in this Award Agreement, the Restricted Shares shall vest in one or more installments as follows:

###VEST_SCHEDULE_TABLE###

2. **Rights as a Stockholder**.

2.1 **Voting Rights**. The Participant shall be the record owner of the Restricted Shares until such Restricted Shares are sold or otherwise disposed of or forfeited, and shall be entitled to all of the rights of a stockholder of the Company including, without limitation, the right to vote such shares and, to the extent set forth in Section 2.2, the right to receive all dividends or other distributions paid with respect to such shares.

2.2 **Dividend Rights**. No dividends will be payable on Unvested Shares; however, the Participant shall accumulate an unvested right to payment of Dividend Equivalents on Unvested Shares with respect to any cash dividends that would have been paid on the Unvested Shares if they were vested. Such Dividend Equivalents will be in an amount of cash per Unvested Share equal to the cash dividend paid with respect to one share of Common Stock. The Dividend Equivalents, if any, will be credited to a bookkeeping account in the name of the Participant. The Participant shall be entitled to payment of accumulated Dividend Equivalents with respect to the Unvested Shares only to the extent that such Unvested Shares ultimately become vested pursuant to this Award Agreement. Dividend Equivalents shall be subject to any required tax withholding, and shall be paid to the Participant as soon as administratively possible following the date that the corresponding Unvested Shares become vested, but in no event later than March 15th of the year following the year in which such vesting occurs. The Participant shall not be entitled to Dividend Equivalents with respect to dividends with a record date prior to the date of this Award Agreement. The Dividend Equivalent amounts will be subject to the same vesting, forfeiture and other terms and conditions applicable to the corresponding Unvested Shares.

2.3 **Documentation of Issuance**. The Company may issue stock certificates or evidence the Participant's interest by using a restricted book entry account with the Company's transfer agent. Physical possession or custody of any stock certificates that are issued shall be retained by the Company until such time as the Restricted Shares become Vested Shares.

2.4 **Legend**. A legend may be placed on any certificate(s) or other document(s) delivered to the Participant indicating restrictions on transferability of the Restricted Shares issued pursuant to this Award Agreement or any other restrictions that the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any applicable federal or state securities laws or any stock exchange on which the shares of Common Stock are then listed or quoted.

3. **Non-Transferability of Unvested Shares**. The Participant may not sell, gift, transfer, assign, hypothecate, pledge, encumber, abandon, contribute, distribute, exchange or otherwise dispose of, whether by contract, operation of law or otherwise (collectively, "***transfer***"), any of the Unvested Shares, or any beneficial interest therein, under any circumstances whatsoever. Any transfer or purported transfer of any Unvested Shares, or any beneficial interest therein, shall be null and void, and such Unvested Shares (and corresponding Dividend Equivalents, if any) shall thereupon be immediately forfeited, and the Participant shall not be entitled to any payment therefor.

4. **Termination of Service; Part-Time Work**.

4.1 **General Rule**. In the event that, prior to the vesting date, the Participant ceases to provide services to the Company (or any Subsidiary or Affiliate) in the capacity of an Employee, Director or Consultant (collectively referred to herein as "***Service***") for any reason, with or without cause, the Participant shall forfeit all then Unvested Shares (and Dividend Equivalents, if any) and the Participant shall not be entitled to any payment therefor.

4.2 **Determination of Termination Date**. For purposes of this Award Agreement, the Participant's date of cessation of Service shall mean the date upon which the Participant ceases active performance of services for the Company, a Subsidiary or Affiliate, as determined by the Company, including following the provision of a notification of termination or resignation from Service and shall be determined solely by this Award Agreement and without reference to any other agreement, written or oral, including the Participant's employment agreement (if any). Thus, in the event of termination of the Participant's Service (regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where the Participant is employed or the terms of the Participant's employment agreement, if any), unless otherwise expressly provided in this Award Agreement or determined by the Company, the Participant's right to vest in the Restricted Shares under the Plan, if any, will terminate as of such date and will not be extended by any notice period (e.g., the Participant's period of Service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where the Participant is employed or the terms of the Participant's employment agreement, if any). The Committee shall have the exclusive discretion to determine when the Participant is no longer actively performing services for purposes of the grant of Restricted Shares (including whether the Participant may still be considered to be providing services while on a leave of absence).

4.3 **Part-Time Work**. To the extent permissible under applicable local law, if the Participant who is employed as a full-time Employee commences working on a part-time or per diem basis, and unless otherwise expressly provided in this Award Agreement or determined by the Company, (i) the Participant's right to vest in the Restricted Shares under the Plan, if any, will terminate as of such date and will not be extended by any notice period, and (ii) the Participant shall forfeit all then Unvested Shares (and Dividend Equivalents, if any) and the Participant shall not be entitled to any payment therefor. The Committee shall have the exclusive discretion to determine when the Participant is no longer working as a full-time Employee for purposes of the Restricted Shares.

5. **Beneficial Ownership of Shares; Certificate Registration**. The Participant hereby authorizes the Company, in its sole discretion, to deposit for the benefit of the Participant with a Company-designated brokerage firm or, at the Company's discretion, any other broker with which the Participant has an account relationship of which the Company has notice, any or all Restricted Shares acquired by the Participant pursuant to the Award. Except as provided by the preceding sentence, a certificate for the Shares as to which the Award is settled shall be registered in the name of the Participant.

6. **Restrictions on Grant of the Award and Issuance of Shares**. The grant of the Award and issuance of the Restricted Shares shall be subject to compliance with all applicable requirements of U.S. federal, state or foreign law with respect to such securities. No Restricted Shares may be issued hereunder if the issuance of such Restricted Shares would constitute a violation of any applicable U.S. federal, state or foreign securities laws or other laws or regulations or the requirements of any stock exchange or market system upon which the Common Stock may then be listed. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance of any Restricted Shares subject to the Award shall relieve the Company of any liability in respect of the failure to issue such Restricted Shares as to which such requisite authority

shall not have been obtained. Further, regardless of whether the transfer of the Restricted Shares has been registered under the Securities Act or has been registered or qualified under the securities laws of any State, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Restricted Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any State, or any other law.

7. **Tax Withholding and Advice**.

7.1 **In General**. The Participant acknowledges that, regardless of any action taken by the Company or, if different, the Participant's employer (the "***Employer***"), the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to the Participant's participation in the Plan and legally applicable to the Participant ("***Tax-Related Items***"), is and remains the Participant's responsibility and may exceed the amount actually withheld by the Company or the Employer. The Participant further acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Shares, including, but not limited to, the grant or vesting of the Restricted Shares, the subsequent sale of Restricted Shares and the receipt of any dividends; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Restricted Shares to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if the Participant is subject to Tax-Related Items in more than one jurisdiction between the Grant Date and the date of any relevant taxable or tax withholding event, as applicable, the Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

7.2 **Withholding of Taxes**. Prior to any relevant taxable or tax withholding event, as applicable, the Participant agrees to make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items (including hypothetical withholding tax amounts if the Participant is covered under a Company tax equalization policy). In this regard, the Participant authorizes the Company or its agent to satisfy the obligations with regard to all Tax-Related Items by withholding Vested Shares, subject to Section 14.3 of the Plan. In the event that such withholding of Vested Shares is problematic under applicable tax or securities law or has materially adverse accounting consequences (as determined by the Company), by the Participant's acceptance of the Restricted Shares, the Participant authorizes and directs the Company and any brokerage firm determined acceptable to the Company to sell on the Participant's behalf a whole number of Vested Shares from the Award as the Company determines to be appropriate to generate cash proceeds sufficient to satisfy the obligation for Tax-Related Items.

Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding rates or other applicable withholding rates, including maximum applicable rates, in which case the Participant may receive a refund of any over-withheld amount in cash and will have no entitlement to the Common Stock equivalent. If the obligation for Tax-Related Items is satisfied by withholding Vested Shares, for tax purposes, the Participant is deemed to have been issued the full number of Vested Shares, notwithstanding that a number of the Vested Shares are held back solely for the purpose of paying the Tax-Related Items.

7.3 **Section 83(b) Election**. The Participant understands that, under Section 83 of the Code, the difference between the purchase price paid for the Restricted Shares and their fair market value at the time that any such Restricted Shares become Vested Shares may be reportable as ordinary income at that time. The Participant understands that he or she may file with the Internal Revenue Service (the "***IRS***") an election under Section 83(b) of the Code that may, under certain circumstances, provide the Participant

with more favorable tax treatment of the Restricted Shares. **Failure to timely file an election under Section 83(b) of the Code, if appropriate, may result in adverse tax consequences to the Participant.**

TO BE EFFECTIVE, AN ELECTION UNDER SECTION 83(b) OF THE CODE MUST BE FILED WITH THE IRS WITHIN THIRTY (30) DAYS AFTER THE DATE ON WHICH THE PARTICIPANT RECEIVES THE RESTRICTED SHARES. THIS TIME PERIOD CANNOT BE EXTENDED. THE PARTICIPANT ACKNOWLEDGES THAT TIMELY FILING OF AN ELECTION UNDER SECTION 83(b) OF THE CODE IS THE PARTICIPANT'S SOLE RESPONSIBILITY, EVEN IF THE PARTICIPANT REQUESTS THAT THE COMPANY OR ITS REPRESENTATIVES FILE SUCH ELECTION ON HIS OR HER BEHALF.

The Participant understands that the Participant should consult with the Participant's own tax advisor regarding the tax effects of the issuance of the Restricted Shares to the Participant and the advisability of the Participant filing an election under Section 83(b) of the Code with the IRS.

7.4 **Tax Advice**. The Participant represents, warrants and acknowledges that the Company has made no warranties or representations to the Participant with respect to the income tax, social contributions or other tax consequences of the transactions contemplated by this Award Agreement, and the Participant is in no manner relying on the Company or the Company's representatives for an assessment of such tax consequences. THE PARTICIPANT UNDERSTANDS THAT THE TAX AND SOCIAL SECURITY LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE PARTICIPANT IS HEREBY ADVISED TO CONSULT WITH HIS OR HER OWN PERSONAL TAX, LEGAL AND FINANCIAL ADVISORS REGARDING THE PARTICIPANT'S PARTICIPATION IN THE PLAN BEFORE TAKING ANY ACTION RELATED TO THE PLAN. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.

8. **Authorization to Release Necessary Personal Information**.

The Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Participant's personal data as described in this Award Agreement and any other Award grant materials ("Data") by and among, as applicable, the Employer, the Company and its Subsidiaries and Affiliates for the exclusive purpose of implementing, administering and managing the Participant's participation in the Plan.

The Participant understands that the Company and the Employer may hold certain personal information about the Participant, including, but not limited to, the Participant's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Restricted Shares or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in the Participant's favor, for the exclusive purpose of implementing, administering and managing the Plan.

The Company may retain the services of an equity compensation plan recordkeeper (the "Recordkeeper") to facilitate administration of the Plan. In such event, the Participant understands that Data will be transferred to the Recordkeeper or such other stock plan service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration and management of the Plan. The Participant understands that the recipients of the Data may be located in the United States or elsewhere, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than the Participant's country. The Participant understands that if he or she resides outside the United States, he or she may request a list with the names and addresses of any potential recipients of the Data by contacting the Company's stock administration department. The Participant authorizes the Company, the Recordkeeper and any other possible

recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing the Participant's participation in the Plan. The Participant understands that Data will be held only as long as is necessary to implement, administer and manage the Participant's participation in the Plan. The Participant understands that if he or she resides outside the United States, he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting the Company's stock administration department. Further, the Participant understands that he or she is providing the consents herein on a purely voluntary basis. If the Participant does not consent, or if the Participant later seeks to revoke his or her consent, his or her employment status or service and career with the Employer will not be adversely affected; the only adverse consequence of refusing or withdrawing the Participant's consent is that the Company would not be able to grant the Participant Restricted Shares or other equity awards or administer or maintain such awards. Therefore, the Participant understands that refusing or withdrawing his or her consent may affect the Participant's ability to participate in the Plan. For more information on the consequences of the Participant's refusal to consent or withdrawal of consent, the Participant understands that he or she may contact the Company's stock administration department.

9. **Effect of Change in Control on Award**.

9.1 In the event of a Change in Control, the vesting of the Restricted Shares shall be accelerated in full and the total number of Restricted Shares subject to the Award shall become Vested Shares effective as of immediately prior to the date of the Change in Control, provided that the Participant's Service has not terminated prior to such date. No such acceleration, however, shall occur if and to the extent these Restricted Shares are, in connection with the Change in Control, either assumed by the successor corporation (or parent thereof) or replaced with comparable restricted shares of the successor corporation (or parent thereof). The determination of the comparability of restricted shares shall be made by the Committee, and such determination shall be final, binding and conclusive. This Award Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

9.2 In the event that the Restricted Shares are, in connection with the Change in Control, either assumed by the successor corporation (or parent thereof) or replaced with comparable restricted shares of the successor corporation (or parent thereof) and, within eighteen (18) months after the effective date of the Change in Control, the Participant's Service terminates due to Involuntary Termination, the vesting of the Restricted Shares shall be accelerated in full and the total number of Restricted Shares subject to the Award shall be deemed vested effective as of the effective date of the Participant's Involuntary Termination, provided that the Participant has signed a full general release in a form prepared by or otherwise acceptable to Company (in its sole discretion), releasing all claims, known or unknown, that the Participant may have against Company and its officers, directors, employees and affiliated companies, arising out of or in any way related to the Participant's employment or service or termination of employment or service with Company and the period for revocation, if any, of such release has lapsed on or before the 60th day following the date of the Participant's termination of employment or service without the release having been revoked. In the event that such release does not become effective in accordance with its terms on or before the 60th day following the date of the Participant's termination of employment or service, the Participant shall forfeit, without compensation therefor, any Restricted Shares (and any corresponding Dividend Equivalents, if any) that were deemed vested as a result of the Participant's Involuntary Termination.

10. **Adjustments for Changes in Capital Structure**. The number of Restricted Shares awarded pursuant to this Award Agreement is subject to adjustment as provided in this Award Agreement and Article 10 of the Plan. Upon the occurrence of an event described in Article 10 of the Plan, any and all new, substituted or additional securities or other property to which a holder of a Restricted Share would be entitled shall be immediately subject to the Award Agreement and included within the meaning of the term "Restricted Shares" for all purposes of the Award. The Participant shall be notified of such adjustment and such adjustments shall be binding upon the Company and the Participant.

11. **No Entitlement or Claims for Compensation**.

In accepting the Award, the Participant acknowledges, understands and agrees that:

11.1 the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;

11.2 the grant of the Restricted Shares is voluntary and occasional and does not create any contractual or other right to receive future grants of Restricted Shares, or benefits in lieu of Restricted Shares, even if Restricted Shares have been granted in the past;

11.3 all decisions with respect to future Awards of Restricted Shares or other grants, if any, will be at the sole discretion of the Company;

11.4 the Restricted Shares and the Participant's participation in the Plan shall not create a right to employment or be interpreted as forming an employment or services contract with the Company, the Employer or any Subsidiary or Affiliate and shall not interfere with the ability of the Company, the Employer or any Subsidiary or Affiliate, as applicable, to terminate the Participant's employment or service relationship (if any);

11.5 the Participant is voluntarily participating in the Plan;

11.6 the Restricted Shares are not intended to replace any pension rights or compensation;

11.7 the Restricted Shares and the income and value of same are not part of normal or expected compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;

11.8 the future value of the Restricted Shares is unknown, indeterminable and cannot be predicted with certainty;

11.9 no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Shares (and Dividend Equivalents, if any) resulting from the termination of the Participant's employment or other service relationship (for any reason whatsoever whether or not later found to be invalid or in breach of employment laws in the jurisdiction where the Participant is employed or the terms of the Participant's employment agreement, if any), and in consideration of the grant of the Restricted Shares to which the Participant acknowledges he or she is otherwise not entitled, the Participant irrevocably agrees never to institute any such claim against the Company, any of its Subsidiaries or Affiliates or the Employer, waives his or her ability, if any, to bring any such claim, and releases the Company, its Subsidiaries and Affiliates and the Employer from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, the Participant shall be

deemed irrevocably to have agreed not to pursue such claim and agrees to execute any and all documents necessary to request dismissal or withdrawal of such claim; and

11.10 unless otherwise provided in the Plan or determined by the Company in its discretion, the Restricted Shares and the benefits evidenced by this Award Agreement do not create any entitlement to have the Restricted Shares or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the shares of the Company.

12. **Miscellaneous Provisions**.

12.1 **Amendment**. The Committee may amend this Award Agreement at any time; provided, however, that no such amendment may adversely affect the Participant's rights under this Award Agreement without the consent of the Participant, except to the extent such amendment is desirable or necessary to comply with applicable law, including, but not limited to, Section 409A of the Code, as further provided in the Plan. No amendment or addition to this Award Agreement shall be effective unless in writing.

12.2 **Further Instruments and Imposition of Other Requirements**. The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Award Agreement. The Company reserves the right to impose other requirements on Participant's participation in the Plan, on the Restricted Shares and on any other Shares acquired under the Plan to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. Furthermore, the Participant acknowledges that the laws of the country in which the Participant is working at the time of grant or vesting of the Restricted Shares or the sale of Vested Shares received pursuant to this Award Agreement (including any rules or regulations governing securities, foreign exchange, tax, labor, or other matters) may subject the Participant to additional procedural or regulatory requirements that the Participant is and will be solely responsible for and must fulfill.

12.3 **Binding Effect**. This Award Agreement shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer set forth herein, be binding upon the Participant and the Participant's heirs, executors, administrators, successors and permitted assigns.

12.4 **Notices**. Any notice required to be given or delivered to the Company under the terms of this Award Agreement shall be in writing and addressed to the Company at its principal corporate offices. Any notice required to be given or delivered to the Participant shall be in writing and addressed to the Participant at the address maintained for the Participant in the Company's records or at the address of the local office of the Company or of a Subsidiary or Affiliate at which the Participant works.

12.5 **Construction of Award Agreement**. This Award Agreement, and the Restricted Shares evidenced hereby (a) are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan, and (b) constitute the entire agreement between the Participant and the Company on the subject matter hereof and supersede all proposals, written or oral, and all other communications between the parties related to the subject matter. All decisions of the Committee with respect to any question or issue arising under this Award Agreement or the Plan shall be conclusive and binding on all persons having an interest in the Restricted Shares.

12.6 **Governing Law**. The interpretation, performance and enforcement of this Award Agreement shall be governed by the laws of the State of Delaware, U.S.A. without regard to the conflict-of-laws rules thereof or of any other jurisdiction.

12.7 **Arbitration; Choice of Forum**. BY ACCEPTING THIS AWARD, THE PARTICIPANT UNDERSTANDS AND AGREES THAT THE ARBITRATION AND CHOICE OF FORUM PROVISIONS SET FORTH IN SECTION 14.14 OF THE PLAN, WHICH ARE EXPRESSLY INCORPORATED HEREIN BY REFERENCE AND WHICH, AMONG OTHER THINGS, PROVIDE THAT ANY DISPUTE, CONTROVERSY OR CLAIM BETWEEN THE COMPANY AND THE PARTICIPANT ARISING OUT OF OR RELATING TO OR CONCERNING THE PLAN OR THIS AWARD AGREEMENT SHALL BE FINALLY SETTLED BY ARBITRATION IN PHILADELPHIA PENNSYLVANIA PURSUANT TO THE TERMS THEREOF, SHALL APPLY.

12.8 **Section 409A**. Notwithstanding any other provision of the Plan or this Award Agreement, the Plan and this Award Agreement shall be interpreted in accordance with, and incorporate the terms and conditions required by, Section 409A of the Code (together with any Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the date hereof). The vesting and settlement of Dividend Equivalents awarded pursuant to this Award Agreement are intended to qualify for the "short-term deferral" exemption from Section 409A of the Code and the terms of this Award Agreement shall be interpreted in compliance with this intention. The Company reserves the right, to the extent the Company deems necessary or advisable in its sole discretion, to unilaterally amend or modify the Plan and/or this Award Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, including amendments or actions that would result in a reduction in benefits payable under the Award, as the Committee determines are necessary or appropriate to ensure that the Dividend Equivalents qualify for exemption from or comply with Section 409A of the Code or mitigate any additional tax, interest and/or penalties or other adverse tax consequences that may apply under Section 409A of the Code; *provided*, *however*, that the Company makes no representations that the Dividend Equivalents will be exempt from Section 409A of the Code and makes no undertaking to preclude Section 409A of the Code from applying to any Dividend Equivalents.

12.9 **Administration**. The Committee shall have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon the Participant, the Company and all other interested persons. No member of the Committee or the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Award Agreement or the Restricted Shares.

12.10 **Counterparts**. This Award Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

12.11 **Severability**. If any provision of this Award Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Award Agreement shall be deemed valid and enforceable to the full extent possible.

12.12 **Language**. If the Participant has received this Award Agreement or any other document related to the Plan in a language other than English and the meaning of the translated version is different from the English version, the English version will control.

12.13 **Electronic Delivery**. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an

online or electronic system established and maintained by the Company or a third party designated by the Company.

12.14 **Waiver**. The Participant acknowledges that the Company's waiver of a breach of any provision of this Award Agreement shall not operate or be construed as a waiver of any other provision of this Award Agreement, or of any subsequent breach by the Participant or any other participant.

12.15 **Clawback/Recovery**. The Restricted Shares shall be subject to the Clawback/Recovery provisions contained in Section 14.17 of the Plan.

By his or her signature below or by electronic acceptance or authentication in a form authorized by the Company (including by electronically accepting this Award Agreement through his or her Shareworks account with Morgan Stanley), the Participant agrees to be bound by the terms and conditions of the Plan and this Award Agreement. The Participant has reviewed this Award Agreement and the Plan in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Award Agreement and fully understands all provisions of this Award Agreement and the Plan. The Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan or relating to the Restricted Shares.

UNIVERSAL HEALTH SERVICES, INC.	**PARTICIPANT**
By: _____	By: _____
Print Name:	Print Name:###PARTICIPANT_NAME###
Title:	

Granted To: ###PARTICIPANT_NAME###
Address: ###HOME_ADDRESS###
Grant Date: ###GRANT_DATE###
Granted Amount: ###TOTAL_AWARDS###
Grant Type: ###DICTIONARY_AWARD_NAME###

RSU No: ###EMPLOYEE_GRANT_NUMBER###
Plan: 2020 OMNIBUS STOCK AND INCENTIVE PLAN

UNIVERSAL HEALTH SERVICES, INC.
2020 OMNIBUS STOCK AND INCENTIVE PLAN

RESTRICTED STOCK UNITS AWARD AGREEMENT

This Restricted Stock Units Award Agreement (the "***Award Agreement***"), made as of the date specified above (the "***Grant Date***"), by and between Universal Health Services, Inc., a Delaware corporation (the "***Company***"), and ###PARTICIPANT_NAME### (the "***Participant***"), residing at the address ###HOME_ADDRESS### set forth above.

W I T N E S S E T H:

WHEREAS, pursuant to the Universal Health Services, Inc. 2020 Omnibus Stock and Incentive Plan, as amended to the Grant Date (the "***Plan***"), the Company desires to grant to the Participant an award of Restricted Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, as hereinafter provided. Unless otherwise defined herein, capitalized terms shall have the meanings assigned under the Plan.

NOW, THEREFORE, in consideration of the premises and of the mutual promises hereinafter contained, the parties hereto agree as follows:

1. **The Award**. The Company hereby awards to the Participant Restricted Stock Units under the Plan, the provisions of which are incorporated herein by reference. Subject to the terms of this Award Agreement and the Plan, each Restricted Stock Unit represents a right to receive one (1) share of Common Stock (a "***Share***") on the applicable vesting date. The number of Restricted Stock Units subject to this Award, the applicable vesting schedule for the Restricted Stock Units, the dates on which the Shares underlying the Restricted Stock Units will be issued, and the remaining terms and conditions are set forth above and in this Award Agreement. Unless and until the Restricted Stock Units have vested in accordance with the vesting schedule set forth in Section 2 below, the Participant will have no right to settlement of such Restricted Stock Units. Prior to settlement of any vested Restricted Stock Units, such Restricted Stock Units will represent an unsecured obligation.

2. **Vesting Schedule**. Except as otherwise provided in this Award Agreement, the Restricted Stock Units shall vest in one or more installments as follows:

###VEST_SCHEDULE_TABLE###

3. **Termination of Service; Part-Time Work**.

3.1 **General Rule**. In the event that, prior to the vesting date, the Participant ceases to provide services to the Company (or any Subsidiary or Affiliate) in the capacity of an Employee, Director or Consultant (collectively referred to herein as "***Service***") for any reason, with or without cause, the Participant shall forfeit all Restricted Stock Units which are not, as of the time of such termination, vested (and Dividend Equivalents, if any), and the Participant shall not be entitled to any payment therefor.

3.2 **Determination of Termination Date**. For purposes of this Award Agreement, the Participant's date of cessation of Service shall mean the date upon which the Participant ceases active performance of services for the Company, a Subsidiary or Affiliate, as determined by the Company, including following the provision of a notification of termination or resignation from Service and shall be determined solely by this Award Agreement and without reference to any other agreement, written or oral, including the Participant's employment agreement (if any). Thus, in the event of termination of the Participant's Service (regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where the Participant is employed or the terms of the Participant's employment agreement, if any), unless otherwise expressly provided in this Award Agreement or determined by the Company, the Participant's right to vest in the Restricted Stock Units under the Plan, if any, will terminate as of such date and will not be extended by any notice period (e.g., the Participant's period of Service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where the Participant is employed or the terms of the Participant's employment agreement, if any). The Committee shall have the exclusive discretion to determine when the Participant is no longer actively performing services for purposes of the grant of Restricted Stock Units (including whether the Participant may still be considered to be providing services while on a leave of absence).

3.3 **Part-Time Work**. To the extent permissible under applicable local law, if the Participant who is employed as a full-time Employee commences working on a part-time or per diem basis, and unless otherwise expressly provided in this Award Agreement or determined by the Company, (i) the Participant's right to vest in the Restricted Stock Units under the Plan, if any, will terminate as of such date and will not be extended by any notice period, and (ii) the Participant shall forfeit all then unvested Restricted Stock Units (and Dividend Equivalents, if any) and the Participant shall not be entitled to any payment therefor. The Committee shall have the exclusive discretion to determine when the Participant is no longer working as a full-time Employee for purposes of the Restricted Stock Units.

4. **Settlement of the Award**.

4.1 **Issuance of Shares of Common Stock**. Subject to the provisions of Section 4.3, Section 5 and Section 7.2 below, the Company shall issue to the Participant on the vesting date, or as soon as practicable thereafter (but in no event later than 60 days after the vesting date), with respect to each Restricted Stock Unit that becomes vested on such date, one (1) Share. Shares issued in settlement of Restricted Stock Units shall not be subject to any restriction on transfer other than any such restriction as may be required pursuant to Section 4.3.

4.2 **Beneficial Ownership of Shares; Certificate Registration**. The Participant hereby authorizes the Company, in its sole discretion, to deposit for the benefit of the Participant with a Company-designated brokerage firm or, at the Company's discretion, any other broker with which the Participant has

an account relationship of which the Company has notice, any or all Shares acquired by the Participant pursuant to the settlement of the Award. Except as provided by the preceding sentence, a certificate for the Shares as to which the Award is settled shall be registered in the name of the Participant.

4.3 **Restrictions on Grant of the Award and Issuance of Shares**. The grant of the Award and issuance of shares of Common Stock upon settlement of the Award shall be subject to compliance with all applicable requirements of U.S. federal, state or foreign law with respect to such securities. No Shares may be issued hereunder if the issuance of such Shares would constitute a violation of any applicable U.S. federal, state or foreign securities laws or other laws or regulations or the requirements of any stock exchange or market system upon which the Common Stock may then be listed. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance of any Shares subject to the Award shall relieve the Company of any liability in respect of the failure to issue such Shares as to which such requisite authority shall not have been obtained. As a condition to the settlement of the Award, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation, and to make any representation or warranty with respect thereto as may be requested by the Company. Further, regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Restricted Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any State, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any State, or any other law.

4.4 **Fractional Shares**. The Company shall not be required to issue fractional Shares upon the settlement of the Award.

5. **Tax Withholding and Advice**.

5.1 **In General**. The Participant acknowledges that, regardless of any action taken by the Company or, if different, the Participant's employer (the "***Employer***"), the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to the Participant's participation in the Plan and legally applicable to the Participant ("***Tax-Related Items***"), is and remains the Participant's responsibility and may exceed the amount actually withheld by the Company or the Employer. The Participant further acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Unit, including, but not limited to, the grant, vesting or settlement of the Restricted Stock Units, the subsequent sale of Shares acquired pursuant to such settlement and the receipt of any dividends; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Restricted Stock Units to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if the Participant is subject to Tax-Related Items in more than one jurisdiction between the Grant Date and the date of any relevant taxable or tax withholding event, as applicable, the Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

5.2 **Withholding of Taxes**. Prior to any relevant taxable or tax withholding event, as applicable, the Participant agrees to make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items (including hypothetical withholding tax amounts if the

Participant is covered under a Company tax equalization policy). In this regard, the Participant authorizes the Company or its agent to satisfy the obligations with regard to all Tax-Related Items by withholding Shares to be issued upon settlement of the Restricted Stock Unit, subject to Section 14.3 of the Plan. In the event that such withholding of Shares is problematic under applicable tax or securities law or has materially adverse accounting consequences (as determined by the Company), by the Participant's acceptance of the Restricted Stock Unit, the Participant authorizes and directs the Company and any brokerage firm determined acceptable to the Company to sell on the Participant's behalf a whole number of Shares from those Shares issued to the Participant in settlement under this Award Agreement, as the Company determines to be appropriate to generate cash proceeds sufficient to satisfy the obligation for Tax-Related Items.

Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding rates or other applicable withholding rates, including maximum applicable rates, in which case the Participant may receive a refund of any over-withheld amount in cash and will have no entitlement to the Common Stock equivalent. If the obligation for Tax-Related Items is satisfied by withholding Shares, for tax purposes, the Participant is deemed to have been issued the full number of Shares subject to the vested Restricted Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items.

5.3 **Tax Advice**. The Participant represents, warrants and acknowledges that the Company has made no warranties or representations to the Participant with respect to the income tax, social contributions or other tax consequences of the transactions contemplated by this Award Agreement, and the Participant is in no manner relying on the Company or the Company's representatives for an assessment of such tax consequences. THE PARTICIPANT UNDERSTANDS THAT THE TAX AND SOCIAL SECURITY LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE PARTICIPANT IS HEREBY ADVISED TO CONSULT WITH HIS OR HER OWN PERSONAL TAX, LEGAL AND FINANCIAL ADVISORS REGARDING THE PARTICIPANT'S PARTICIPATION IN THE PLAN BEFORE TAKING ANY ACTION RELATED TO THE PLAN. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.

6. **Authorization to Release Necessary Personal Information**.

The Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Participant's personal data as described in this Award Agreement and any other Award grant materials ("Data") by and among, as applicable, the Employer, the Company and its Subsidiaries and Affiliates for the exclusive purpose of implementing, administering and managing the Participant's participation in the Plan.

The Participant understands that the Company and the Employer may hold certain personal information about the Participant, including, but not limited to, the Participant's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in the Participant's favor, for the exclusive purpose of implementing, administering and managing the Plan.

The Company may retain the services of an equity compensation plan recordkeeper (the "Recordkeeper") to facilitate administration of the Plan. In such event, the Participant understands that Data will be transferred to the Recordkeeper or such other stock plan service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration

and management of the Plan. The Participant understands that the recipients of the Data may be located in the United States or elsewhere, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than the Participant's country. The Participant understands that if he or she resides outside the United States, he or she may request a list with the names and addresses of any potential recipients of the Data by contacting the Company's stock administration department. The Participant authorizes the Company, the Recordkeeper and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing the Participant's participation in the Plan. The Participant understands that Data will be held only as long as is necessary to implement, administer and manage the Participant's participation in the Plan. The Participant understands that if he or she resides outside the United States, he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting the Company's stock administration department. Further, the Participant understands that he or she is providing the consents herein on a purely voluntary basis. If the Participant does not consent, or if the Participant later seeks to revoke his or her consent, his or her employment status or service and career with the Employer will not be adversely affected; the only adverse consequence of refusing or withdrawing the Participant's consent is that the Company would not be able to grant the Participant Restricted Stock Units or other equity awards or administer or maintain such awards. Therefore, the Participant understands that refusing or withdrawing his or her consent may affect the Participant's ability to participate in the Plan. For more information on the consequences of the Participant's refusal to consent or withdrawal of consent, the Participant understands that he or she may contact the Company's stock administration department.

7. **Effect of Change in Control on Award**.

7.1 In the event of a Change in Control, the vesting of the Restricted Stock Units shall be accelerated in full and the total number of Restricted Stock Units subject to the Award shall be deemed vested effective as of immediately prior to the date of the Change in Control, provided that the Participant's Service has not terminated prior to such date, and such vested Restricted Stock Units shall be settled in accordance with Section 4.1. No such acceleration, however, shall occur if and to the extent: (i) these Restricted Stock Units are, in connection with the Change in Control, either assumed by the successor corporation (or parent thereof) or replaced with comparable restricted stock units of the successor corporation (or parent thereof); or (ii) these Restricted Stock Units are replaced with a cash incentive program of the successor corporation which preserves the Fair Market Value of the Restricted Stock Units at the time of the Change in Control and provides for subsequent pay-out in accordance with the vesting schedule and settlement terms set forth in this Award Agreement. The determination of the comparability of restricted stock units under clause (i) shall be made by the Committee, and such determination shall be final, binding and conclusive. This Award Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

7.2 In the event that the Restricted Stock Units are, in connection with the Change in Control, either assumed by the successor corporation (or parent thereof) or replaced with comparable restricted stock units of the successor corporation (or parent thereof) and, within eighteen (18) months after the effective date of the Change in Control, the Participant's Service terminates due to Involuntary Termination, the vesting of the Restricted Stock Units shall be accelerated in full and the total number of Restricted Stock Units subject to the Award shall be deemed vested effective as of the effective date of the Participant's Involuntary Termination. Restricted Stock Units vested under this Section 7.2 as a result of the Participant's

Involuntary Termination shall be settled on the 60th day following the date of the Participant's termination of employment or service, provided that the Participant has signed a full general release in a form prepared by or otherwise acceptable to Company (in its sole discretion), releasing all claims, known or unknown, that the Participant may have against Company and its officers, directors, employees and affiliated companies, arising out of or in any way related to the Participant's employment or service or termination of employment or service with Company and the period for revocation, if any, of such release has lapsed on or before such 60th day following the date of the Participant's termination of employment or service without the release having been revoked. In the event that such release does not become effective in accordance with its terms on or before the 60th day following the date of the Participant's termination of employment or service, the Participant shall forfeit, without compensation therefor, any Restricted Stock Units (and any corresponding Dividend Equivalents, if any) that were deemed vested as a result of the Participant's Involuntary Termination.

8. **Adjustments for Changes in Capital Structure**.

The number of Restricted Stock Units awarded pursuant to this Award Agreement is subject to adjustment as provided in Article 10 of the Plan. Upon the occurrence of an event described in Article 10 of the Plan, any and all new, substituted or additional securities or other property to which a holder of a Share issuable in settlement of the Award would be entitled shall be immediately subject to the Award Agreement and included within the meaning of the term "Shares" for all purposes of the Award. The Participant shall be notified of such adjustment and such adjustment shall be binding upon the Company and the Participant.

9. **No Entitlement to or Claims for Compensation**.

In accepting the Award, the Participant acknowledges, understands and agrees that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;

(b) the grant of the Restricted Stock Units is voluntary and occasional and does not create any contractual or other right to receive future grants of Restricted Stock Units, or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been granted in the past;

(c) all decisions with respect to future Awards of Restricted Stock Units or other grants, if any, will be at the sole discretion of the Company;

(d) the Restricted Stock Unit grant and the Participant's participation in the Plan shall not create a right to employment or be interpreted as forming an employment or services contract with the Company, the Employer or any Subsidiary or Affiliate and shall not interfere with the ability of the Company, the Employer or any Subsidiary or Affiliate, as applicable, to terminate the Participant's employment or service relationship (if any);

(e) the Participant is voluntarily participating in the Plan;

(f) the Restricted Stock Units and the Shares subject to the Restricted Stock Units are not intended to replace any pension rights or compensation;

(g) the Restricted Stock Units and the Shares subject to the Restricted Stock Units, and the income and value of same, are not part of normal or expected compensation for purposes of

calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;

(h) the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;

(i) no claim for or entitlement to compensation or damages shall arise from forfeiture of the Restricted Stock Units (or any portion thereof) (and Dividend Equivalents, if any) resulting from the termination of the Participant's employment or other service relationship (for any reason whatsoever whether or not later found to be invalid or in breach of employment laws in the jurisdiction where the Participant is employed or the terms of the Participant's employment agreement, if any), and in consideration of the grant of the Restricted Stock Units, to which the Participant acknowledges he or she is otherwise not entitled, the Participant irrevocably agrees never to institute any such claim against the Company, any of its Subsidiaries or Affiliates or the Employer, waives his or her ability, if any, to bring any such claim, and releases the Company, its Subsidiaries and Affiliates and the Employer from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, the Participant shall be deemed irrevocably to have agreed not to pursue such claim and agrees to execute any and all documents necessary to request dismissal or withdrawal of such claim;

(j) unless otherwise provided in the Plan or determined by the Company in its discretion, the Restricted Stock Units and the benefits evidenced by this Award Agreement do not create any entitlement to have the Restricted Stock Units or any such benefits transferred to, or assumed by, another company, nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the shares of the Company; and

(k) the following provisions apply only if the Participant is providing services outside the United States:

(i) the Restricted Stock Units and the Shares subject to the Restricted Stock Units are not part of normal or expected compensation or salary for any purpose; and

(ii) the Participant acknowledges and agrees that neither the Company or the Employer, nor any Subsidiary or Affiliate, shall be liable for any foreign exchange rate fluctuation between the Participant's local currency and the United States Dollar that may affect the value of the Restricted Stock Units or of any amounts due to the Participant pursuant to the settlement of the Restricted Stock Units or the subsequent sale of any Shares acquired upon settlement.

10. **Rights as a Stockholder; Dividend Equivalents**.

10.1 The Participant shall have no rights as a stockholder with respect to any Shares which may be issued in settlement of this Award until the date of the issuance of a certificate for such Shares or the deposit of such Shares in a brokerage account (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date the Shares are issued, except as provided in Section 8 or Section 10.2.

10.2 The Participant shall accumulate an unvested right to payment of Dividend Equivalents on the Shares underlying Restricted Stock Units with respect to any cash dividends paid on the Shares that have a record date on or after the date of this Award Agreement. Such Dividend Equivalents will be in an amount of cash per Restricted Stock Unit equal to the cash dividend paid with respect to one Share. The

Dividend Equivalents, if any, will be credited to a bookkeeping account in the name of the Participant. The Participant shall be entitled to payment of accumulated Dividend Equivalents with respect to the number of Restricted Stock Units equal to the number of Shares ultimately issued to the Participant pursuant to this Award Agreement. Dividend Equivalents shall be subject to any required tax withholding, and shall be paid to the Participant as soon as administratively possible following the date that the Shares are issued to the Participant, but in no event later than March 15th of the year following the year in which such vesting occurs. The Participant shall not be entitled to Dividend Equivalents with respect to dividends with a record date prior to the date of this Award Agreement. The Dividend Equivalent amounts will be subject to the same vesting, forfeiture and other terms and conditions applicable to the corresponding Restricted Stock Units.

11. **Miscellaneous Provisions**.

11.1 **Amendment**. The Committee may amend this Award Agreement at any time; provided, however, that no such amendment may adversely affect the Participant's rights under this Award Agreement without the consent of the Participant, except to the extent such amendment is desirable or necessary to comply with applicable law, including, but not limited to, Section 409A of the Code, as further provided in the Plan. No amendment or addition to this Award Agreement shall be effective unless in writing.

11.2 **Nontransferability of the Award**. Prior to the issuance of Shares on the applicable settlement date, no right or interest of the Participant in the Award nor any Restricted Stock Units subject to the Award shall be in any manner pledged, encumbered, or hypothecated to or in favor of any party other than the Company or a Subsidiary or Affiliate or shall become subject to any lien, obligation, or liability of such Participant to any other party other than the Company, or a Subsidiary or Affiliate. Except as otherwise provided by the Committee, no Award shall be assigned, transferred or otherwise disposed of other than by will or the laws of descent and distribution. All rights with respect to the Award shall be exercisable during the Participant's lifetime only by the Participant or the Participant's guardian or legal representative.

11.3 **Further Instruments and Imposition of Other Requirements**. The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Award Agreement. The Company reserves the right to impose other requirements on Participant's participation in the Plan, on the Restricted Stock Units and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. Furthermore, the Participant acknowledges that the laws of the country in which the Participant is working at the time of grant, vesting or settlement of the Restricted Stock Units or the sale of Shares received pursuant to this Award Agreement (including any rules or regulations governing securities, foreign exchange, tax, labor, or other matters) may subject the Participant to additional procedural or regulatory requirements that the Participant is and will be solely responsible for and must fulfill.

11.4 **Binding Effect**. This Award Agreement shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer set forth herein, be binding upon the Participant and the Participant's heirs, executors, administrators, successors and permitted assigns.

11.5 **Notices**. Any notice required to be given or delivered to the Company under the terms of this Award Agreement shall be in writing and addressed to the Company at its principal corporate offices. Any notice required to be given or delivered to the Participant shall be in writing and addressed to the Participant at the address maintained for the Participant in the Company's records or at the address of the local office of the Company or of a Subsidiary or Affiliate at which the Participant works.

11.6 **Construction of Award Agreement**. This Award Agreement, and the Restricted Stock Units evidenced hereby (i) are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan, and (ii) constitute the entire agreement between the Participant and the Company on the subject matter hereof and supersede all proposals, written or oral, and all other communications between the parties related to the subject matter. All decisions of the Committee with respect to any question or issue arising under this Award Agreement or the Plan shall be conclusive and binding on all persons having an interest in the Restricted Stock Units.

11.7 **Governing Law**. The interpretation, performance and enforcement of this Award Agreement shall be governed by the laws of the State of Delaware, U.S.A. without regard to the conflict-of-laws rules thereof or of any other jurisdiction.

11.8 **Arbitration; Choice of Forum**. BY ACCEPTING THIS AWARD, THE PARTICIPANT UNDERSTANDS AND AGREES THAT THE ARBITRATION AND CHOICE OF FORUM PROVISIONS SET FORTH IN SECTION 14.14 OF THE PLAN, WHICH ARE EXPRESSLY INCORPORATED HEREIN BY REFERENCE AND WHICH, AMONG OTHER THINGS, PROVIDE THAT ANY DISPUTE, CONTROVERSY OR CLAIM BETWEEN THE COMPANY AND THE PARTICIPANT ARISING OUT OF OR RELATING TO OR CONCERNING THE PLAN OR THIS AWARD AGREEMENT SHALL BE FINALLY SETTLED BY ARBITRATION IN PHILADELPHIA, PENNSYLVANIA, PURSUANT TO THE TERMS THEREOF, SHALL APPLY.

11.9 **Section 409A**. Notwithstanding any other provision of the Plan or this Award Agreement, the Plan and this Award Agreement shall be interpreted in accordance with, and incorporate the terms and conditions required by, Section 409A of the Code (together with any Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the date hereof). The vesting and settlement of Restricted Stock Units awarded pursuant to this Award Agreement (and Dividend Equivalents, if any) are intended to qualify for the "short-term deferral" exemption from Section 409A of the Code and the terms of this Award Agreement shall be interpreted in compliance with this intention. The Company reserves the right, to the extent the Company deems necessary or advisable in its sole discretion, to unilaterally amend or modify the Plan and/or this Award Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, including amendments or actions that would result in a reduction in benefits payable under the Award, as the Committee determines are necessary or appropriate to ensure that the Restricted Stock Units (and Dividend Equivalents, if any) qualify for exemption from or comply with Section 409A of the Code or mitigate any additional tax, interest and/or penalties or other adverse tax consequences that may apply under Section 409A of the Code; *provided*, *however*, that the Company makes no representations that the Restricted Stock Units (and Dividend Equivalents, if any) will be exempt from Section 409A of the Code and makes no undertaking to preclude Section 409A of the Code from applying to these Restricted Stock Units (and Dividend Equivalents, if any).

11.10 **Administration**. The Committee shall have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon the Participant, the Company and all other interested persons. No member of the Committee or the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Award Agreement or the Restricted Stock Units.

11.11 **Counterparts**. This Award Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

11.12 **Severability**. If any provision of this Award Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Award Agreement shall be deemed valid and enforceable to the full extent possible.

11.13 **Language**. If the Participant has received this Award Agreement or any other document related to the Plan in a language other than English and the meaning of the translated version is different from the English version, the English version will control.

11.14 **Electronic Delivery**. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an online or electronic system established and maintained by the Company or a third party designated by the Company.

11.15 **Waiver**. The Participant acknowledges that the Company's waiver of a breach of any provision of this Award Agreement shall not operate or be construed as a waiver of any other provision of this Award Agreement, or of any subsequent breach by the Participant or any other participant.

11.16 **Clawback/Recovery**. The Restricted Stock Units shall be subject to the Clawback/Recovery provisions contained in Section 14.17 of the Plan.

By his or her signature below or by electronic acceptance or authentication in a form authorized by the Company (including by electronically accepting this Award Agreement through his or her Shareworks account with Morgan Stanley), the Participant agrees to be bound by the terms and conditions of the Plan and this Award Agreement. The Participant has reviewed this Award Agreement and the Plan in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Award Agreement and fully understands all provisions of this Award Agreement and the Plan. The Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan or relating to the Restricted Stock Units.

UNIVERSAL HEALTH SERVICES, INC.

By: _____

Print Name:

Title:

PARTICIPANT

By: _____

Print Name:###PARTICIPANT_NAME###

Exhibit 31.1

CERTIFICATION—Chief Executive Officer

I, Alan B. Miller, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2020

/s/ Alan B. Miller
Chief Executive Officer

Exhibit 31.2

CERTIFICATION—Chief Financial Officer

I, Steve Filton, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2020

/s/ Steve Filton
Executive Vice President and Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Universal Health Services, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alan B. Miller, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and to the best of my knowledge, that:

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

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the end of, and for the period covered by, the Report.

/s/ Alan B. Miller
Chief Executive Officer
August 7, 2020

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

Exhibit 32.2

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

In connection with the Quarterly Report of Universal Health Services, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steve Filton, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and to the best of my knowledge, that:

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

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the end of, and for the period covered by, the Report.

/s/ Steve Filton
Executive Vice President and Chief Financial Officer
August 7, 2020

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