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

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

OR

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

COMMISSION FILE NO. 0-10454

UNIVERSAL HEALTH SERVICES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	23-2077891
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

UNIVERSAL CORPORATE CENTER 367 SOUTH GULPH ROAD P.O. BOX 61558 KING OF PRUSSIA, PENNSYLVANIA	
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	19406-0958 (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (610) 768-3300

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
CLASS B COMMON STOCK, $.01 PAR VALUE	NEW YORK STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
CLASS D COMMON STOCK, $.01 PAR VALUE
(TITLE OF EACH CLASS)

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

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

The number of shares of the registrant's Class A Common Stock, $.01 par value, Class B Common Stock, $.01 par value, Class C Common Stock, $.01 par value, and Class D Common Stock, $.01 par value, outstanding as of January 31, 1998, was 2,059,929, 30,148,102, 207,230, and 31,925, respectively.

The aggregate market value of voting stock held by non-affiliates at January 31, 1998 was $1,400,828,682. (For purpose of this calculation, it was assumed that Class A, Class C, and Class D Common Stock, which are not traded but are convertible share-for-share into Class B Common Stock, have the same market value as Class B Common Stock.)

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's definitive proxy statement for its 1998 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 1997 (incorporated by reference under Part III).

PART I

ITEM 1. BUSINESS

The principal business of Universal Health Services, Inc. (together with its subsidiaries, the "Company") is owning and operating acute care hospitals, behavioral health centers, ambulatory surgery centers and radiation oncology centers. Presently, the Company operates 43 hospitals, consisting of 20 acute care hospitals, 20 behavioral health centers, and three women's centers, in Arkansas, California, the District of Columbia, Florida, Georgia, Illinois, Louisiana, Massachusetts, Michigan, Missouri, Nevada, Oklahoma, Pennsylvania, Puerto Rico, South Carolina, Texas and Washington. The Company, as part of its Ambulatory Treatment Centers Division, owns outright, or in partnership with physicians, and operates or manages 22 surgery and radiation oncology centers located in 13 states.

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

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

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

RECENT AND PROPOSED ACQUISITIONS AND DEVELOPMENT ACTIVITIES

In 1997, the Company proceeded with its development of new facilities and consummated a number of acquisitions.

In July 1997, the Company acquired an 80% interest in a partnership with George Washington University, which owns and operates The George Washington University Hospital, a 501 bed acute care teaching hospital located in Washington, D.C. The Company has agreed to construct a 400 bed acute care replacement facility which is scheduled to be completed in 2001.

During the third and fourth quarters of 1997, the Company spent a total of $71 million for the construction of various new facilities. In August, the 129 bed Edinburg Regional Medical Center located in Edinburg, Texas opened. A Centralized Administrative Services Building for both Edinburg Regional Medical Center and McAllen Medical Center in McAllen, Texas also became operational.

Two newly constructed specialized women's health centers, Renaissance Women's Center of Austin located in Austin, Texas, and Lakeside Women's Center located in Oklahoma City, Oklahoma were opened. The Company owns various equity interests in the limited liability companies which own and operate these facilities. A newly constructed medical complex located in Las Vegas, Nevada, which includes the 148 bed acute care facility, Summerlin Hospital Medical Center, was also opened.

The Company also selectively expanded its operations at certain of its existing facilities: Valley Hospital Medical Center in Las Vegas, Nevada opened its new 19 bed Neonatal Intensive Care Unit; a major expansion of the ICU/CCU unit at Northwest Texas Healthcare System in Amarillo, Texas was completed; McAllen Medical Center in McAllen, Texas opened a new outpatient diagnostic unit; a new outpatient surgery facility was opened at Victoria Regional Medical Center in Victoria, Texas; and the former Edinburg Hospital building in Edinburg, Texas was renovated and opened as the 40 bed UHS Rehabilitation Pavilion, and the 40 bed Lifecare long-term acute care hospital.

In January 1998, the Company acquired three hospitals in Puerto Rico for an aggregate purchase price of $186 million. The hospitals acquired are Hospital San Pablo in Bayamon (430 beds), Hospital San Francisco in Rio Piedras (160 beds), and Hospital San Pablo del Este in Fajardo (180 beds).

Effective February 1, 1998, the Company finalized its joint venture with Quorum Health Group, Inc., which created a regional healthcare system owned by the Company and Quorum by combining the Company's Valley and Summerlin hospitals with Quorum's 241 bed Desert Springs Hospital, all of which are now managed by the Company.

BED UTILIZATION AND OCCUPANCY RATES

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

	1997	1996	1995	1994	1993
Average Licensed Beds:					
Acute Care Hospitals....	3,389	3,018	2,638	2,398	2,548
Behavioral Health Centers..................	1,777	1,565	1,238	1,145	1,134
Average Available Beds(1):					
Acute Care Hospitals....	2,951	2,641	2,340	2,099	2,213
Behavioral Health Centers..................	1,762	1,540	1,223	1,142	1,132
Admissions:					
Acute Care Hospitals....	128,020	111,244	91,298	75,923	73,378
Behavioral Health Centers..................	28,350	22,295	15,329	13,033	11,627
Average Length of Stay (Days):					
Acute Care Hospitals....	4.8	4.9	5.1	5.2	5.4
Behavioral Health Centers..................	11.9	12.4	12.8	13.8	15.8
Patient Days(2):					
Acute Care Hospitals....	618,613	546,237	462,054	394,490	396,135
Behavioral Health Centers..................	337,843	275,667	195,961	179,821	184,263
Occupancy Rate--Licensed Beds(3):					
Acute Care Hospitals....	50%	50%	48%	45%	43%
Behavioral Health Centers..................	52%	48%	43%	43%	45%
Occupancy Rate--Available Beds(3):					
Acute Care Hospitals....	57%	57%	54%	51%	49%
Behavioral Health Centers..................	53%	49%	44%	43%	45%

- - - --------

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

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

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

The number of patient days of a hospital is affected by a number of factors, including the number of physicians using the hospital, changes in the number of beds, the composition and size of the population of the community in which the hospital is located, general and local economic conditions, variations in local medical and surgical practices and the degree of outpatient use of the hospital services. Current industry trends in utilization and occupancy have been significantly affected by changes in reimbursement policies of third party payors. A continuation of such industry trends could have a material adverse impact upon the Company's future operating performance. The Company has experienced growth in outpatient utilization over the past several

years. The Company is unable to predict the rate of growth and resulting impact on the Company's future revenues because it is dependent upon developments in medical technologies and physician practice patterns, both of which are outside of the Company's control. The Company is also unable to predict the extent to which other industry trends will continue or accelerate.

SOURCES OF REVENUE

The Company receives payment for services rendered from private insurers, including managed care plans, the federal government under the Medicare program, state governments under their respective Medicaid programs and directly from patients. All of the Company's acute care hospitals and most of the Company's behavioral health centers are certified as providers of Medicare and Medicaid services by the appropriate governmental authorities. The requirements for certification are subject to change, and, in order to remain qualified for such programs, it may be necessary for the Company to make changes from time to time in its facilities, equipment, personnel and services. Although the Company intends to continue in such programs, there is no assurance that it will continue to qualify for participation.

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

McAllen Medical Center in McAllen, Texas contributed 13% in 1997, 15% in 1996 and 20% in 1995, of the Company's net revenues and 22% in 1997, 27% in 1996 and 37% in 1995, of the Company's operating income (net revenues less operating expenses, salaries and wages, provision for doubtful accounts and allocation of corporate overhead expense) ("operating income"). Valley Hospital Medical Center in Las Vegas, Nevada contributed 12% in 1997, 13% in 1996 and 18% in 1995, of the Company's net revenues and 17% in 1997, 17% in 1996 and 25% in 1995, of the Company's operating income. Northwest Texas Healthcare System ("Northwest Texas") in Amarillo, Texas, which was acquired by the Company in May, 1996, contributed 12% in 1997, and 8% in 1996, of the Company's net revenues and 12% in 1997 and 7% in 1996, of the Company's operating income.

The following table shows approximate percentages of net patient revenue derived by the Company's hospitals owned as of December 31, 1997 since their respective dates of acquisition by the Company from third party sources, including the special Medicaid reimbursements received at three of the Company's acute care facilities located in Texas and one in South Carolina totaling $33.4 million in 1997, $17.8 million in 1996, $12.6 million in 1995, $12.7 million in 1994, and $13.5 million in 1993, and from all other sources during the five years ended December 31, 1997.

	PERCENTAGE OF NET PATIENT REVENUES				
	1997	1996	1995	1994	1993
Third Party Payors:					
Medicare	35.6%	35.6%	35.1%	32.5%	31.8%
Medicaid	14.5%	15.3%	13.7%	13.4%	12.2%
TOTAL	50.1%	50.9%	48.8%	45.9%	44.0%
Other Sources (including patients and private insurance carriers)	49.9%	49.1%	51.2%	54.1%	56.0%
	100%	100%	100%	100%	100%

REGULATION AND OTHER FACTORS

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

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

Psychiatric hospitals, which are exempt from PPS, are cost reimbursed by the Medicare program, but are subject to a per discharge ceiling, calculated based on an annual allowable rate of increase over the hospital's base year amount under the Medicare law and regulations. Capital related costs are exempt from this limitation.

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

The regulations provide for the use of a 10-year transition period in which a blend of the old and new capital payment provisions will be utilized. One of two methodologies will apply during the 10-year transition period: if the hospital's hospital-specific capital rate exceeds the federal capital rate, the hospital will be paid on the basis of a "hold harmless" methodology, which is a blend of a portion of old capital and an amount of new capital and a prospectively determined national federal capital rate; or, with limited exceptions, if the hospital-specific rate is below the federal capital rate, the hospital will receive payments based upon a "fully prospective" methodology, which is a blend of the hospital's hospital-specific capital rate and a prospectively determined national federal capital rate. Each hospital's hospital-specific rate was determined based upon allowable capital costs incurred during the "base year", which, for all of the Company's hospitals, is the year ended December 31, 1990. All of the Company's hospitals are paid under the "'hold harmless" methodology except for one hospital, which is paid under the "fully prospective" methodology. Updated amounts and factors necessary to determine PPS rates for Medicare hospital inpatient services for operating costs and capital related costs are published annually and were last published on August 29, 1997. This latest update implemented changes mandated by the Balanced Budget Act of 1997, which called for a zero percent cost of living update factor for FY 1998.

The Company can provide no assurances that the reductions in the PPS update will not adversely affect its operations. However, within certain limits, a hospital can manage its costs, and, to the extent this is done effectively, a hospital may benefit from the DRG system. However, many hospital operating costs are incurred in order to satisfy licensing laws, standards of the Joint Commission on the Accreditation of Healthcare Organizations and quality of care concerns. In addition, hospital costs are affected by the level of patient acuity, occupancy rates and local physician practice patterns, including length of stay judgments and number and type of tests and procedures ordered. A hospital's ability to control or influence these factors which affect costs is, in many cases, limited.

In addition to the trends described above that continue to have an impact on the operating results, there are a number of other more general factors affecting the Company's business. The Balanced Budget Act of 1997, enacted on August 5, 1997, calls for the government to trim the growth of federal spending on Medicare by $115 billion and on Medicaid by $13 billion over the next five years. The act also calls for reductions in the future rate of increases to payments made to hospitals and reduces the amount of reimbursement for outpatient services, bad debt expense and capital costs. Both Republicans and Democrats appear to be working towards a balanced budget by the year 2002, and it is likely that future budgets will contain certain further reductions in the rate of increase of Medicare and Medicaid spending. There can be no assurance that these and future reductions will not have a material adverse effect on the Company's business.

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

In 1991, the Texas legislature authorized the LoneSTAR Health Initiative (now known as the STAR program), a pilot program in two areas of the state to establish a health care delivery system based on managed care principles. In 1995, the Texas Health and Human Services Commission ("HHSC") was authorized to develop a statewide system to restructure the delivery of health care services provided under the Medicaid program to incorporate managed care delivery systems. Texas requested a waiver of many Medicaid program requirements from HCFA, which denied the initial request. HHSC is seeking approval of a revised waiver request. Meanwhile, HHSC continues to implement managed care pilot programs in various geographic areas of Texas. The Company is unable to predict whether Texas will be granted such waivers or the effect on the Company's business of such waivers.

Upon meeting certain conditions, and serving a disproportionately high share of Texas' and South Carolina's low income patients, three of the Company's facilities located in Texas and one facility located in South Carolina became eligible and received additional reimbursement from each state's disproportionate share hospital fund. Included in the Company's financial results was an aggregate of $33.4 million in 1997, $17.8 million in 1996, and $12.6 million in 1995 received pursuant to the terms of these programs. These programs are scheduled to terminate in the third quarter of 1998, and the Company cannot predict whether these programs will continue beyond their scheduled termination date. The termination of these programs or further changes in the Medicare and Medicaid programs could have a material adverse effect on the Company.

The federal self-referral and payment prohibitions (codified in 42 U.S.C. Section 1395nn, Section 1877 of the Social Security Act) generally forbid, absent qualifying for one of the exceptions, a physician from making referrals for the furnishing of any "designated health services," for which payment may be made under the Medicare or Medicaid programs, to any entity with which the physician (or an immediate family member) has a "financial relationship." The legislation was effective January 1, 1992 for clinical laboratory services ("Stark I") and January 1, 1995 for ten other designated health services ("Stark II"). A "financial relationship" under Stark I and II includes any direct or indirect "compensation arrangement" with an entity for payment of any remuneration, and any direct or indirect "ownership or investment interest" in the entity. The legislation contains certain exceptions including, for example, where the referring physician has an ownership interest in a hospital as a whole or where the physician is an employee of an entity to which he or she refers. The Stark I and II self-referral and payment prohibitions include specific reporting requirements providing that each entity providing covered items or services must provide the Secretary with certain information concerning its ownership, investment, and compensation arrangements. In August 1995, HCFA published a final rule regarding physician self-referrals for clinical lab services. On January 9, 1998, HCFA published a proposed rule regarding physician self referrals for the ten other designated health services. A final rule for Stark II remains in the planning stages.

Starting in 1991, the Inspector General of the Department of Health and Human Services ("HHS") issued regulations which provide for "safe harbors" from the federal anti-kickback statutes; if an arrangement or transaction meets each of the stipulations established for a particular safe harbor, the arrangement will not be subject to challenge by the Inspector General. If an arrangement does not meet the safe harbor criteria, it will be subject to scrutiny under its particular facts and circumstances to determine whether it violates the federal anti-kickback statute which prohibits, in general, fraudulent and abusive practices, and enforcement action may be taken by the Inspector General. In addition to the investment interests safe harbor, other safe harbors include space rental, equipment rental, personal service/management contracts, sales of a physician practice, referral services, warranties, employees, discounts and group purchasing arrangements, among others.

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

Several states, including Florida and Nevada, have passed legislation which limits physician ownership in medical facilities providing imaging services, rehabilitation services, laboratory testing, physical therapy and other services. This legislation is not expected to significantly affect the Company's operations.

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

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

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

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

The Company's healthcare operations generate medical waste that must be disposed of in compliance with federal, state and local environmental laws, rules and regulations. In 1988, Congress passed the Medical Waste Tracking Act. Infectious waste generators, including hospitals, now face substantial penalties for improper arrangements regarding disposal of medical waste, including civil penalties of up to $25,000 per day of noncompliance, criminal penalties of $150,000 per day, imprisonment, and remedial costs. The comprehensive

legislation establishes programs for medical waste treatment and disposal in designated states. The legislation also provides for sweeping inspection authority in the Environmental Protection Agency, including monitoring and testing. The Company believes that its disposal of such wastes is in compliance with all state and federal laws.

MEDICAL STAFF AND EMPLOYEES

The Company's hospitals are staffed by licensed physicians who have been admitted to the medical staff of individual hospitals. With a few exceptions, physicians are not employees of the Company's hospitals and members of the medical staffs of the Company's hospitals also serve on the medical staffs of hospitals not owned by the Company and may terminate their affiliation with the Company's hospitals at any time. Each of the Company's hospitals is managed on a day-to-day basis by a managing director employed by the Company. In addition, a Board of Governors, including members of the hospital's medical staff, governs the medical, professional and ethical practices at each hospital. The Company's facilities had approximately 17,800 employees at December 31, 1997, of whom 12,694 were employed full-time.

Six Hundred Twenty-Two (622) of the Company's employees at four of its hospitals are unionized. At Valley Hospital, unionized employees belong to the Culinary Workers and Bartenders Union and the International Union of Operating Engineers. Registered nurses at Auburn Regional Medical Center located in Washington State, are represented by the United Staff Nurses Union, the technical employees are represented by the United Food and Commercial Workers, and the service employees are represented by the Service Employees International Union. The registered nurses, licensed practical nurses, certain technicians and therapists, and housekeeping employees at HRI Hospital in Boston are represented by the Service Employees International Union. All full-time and regular part-time professional employees of La Amistad Residential Treatment Center in Maitland, Florida are represented by the United Nurses of Florida/United Health Care Employees Union. The Company believes that its relations with its employees are satisfactory.

COMPETITION

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

LIABILITY INSURANCE

Effective January 1, 1998, the Company is covered under commercial insurance policies which provide for a self-insured retention limit for professional and general liability claims for most of its subsidiaries up to $1 million per occurrence, with an average annual aggregate for covered subsidiaries of $4 million through 2001. These subsidiaries maintain excess coverage up to $100 million with major insurance carriers. The Company's remaining facilities are fully insured under commercial policies with excess coverage up to $100 million maintained with major insurance carriers. During 1996 and 1997, most of the Company's subsidiaries were self-insured for professional and general liability claims up to $5 million per occurrence, with excess coverage maintained up to $100 million with major insurance carriers.

RELATIONS WITH UNIVERSAL HEALTH REALTY INCOME TRUST

The Company serves as advisor to Universal Health Realty Income Trust ("UHT"), which leases to the Company the real property of 7 facilities operated by the Company. In addition, UHT holds interests in properties owned by unrelated companies. The Company receives a fee for its advisory services based on the value of UHT's assets. In addition, certain of the directors and officers of the Company serve as trustees and officers of UHT. As of January 31, 1998, the Company owned 8% of UHT's outstanding shares and the Company currently has an option to purchase UHT shares in the future at fair market value to enable it to maintain a 5% interest.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

NAME AND AGE	PRESENT POSITION WITH THE COMPANY
Alan B. Miller (60)	Director, Chairman of the Board, President and Chief Executive Officer
Kirk E. Gorman (47)	Senior Vice President and Chief Financial Officer
Michael G. Servais (51)	Senior Vice President
Richard C. Wright (50)	Vice President
Thomas J. Bender (45)	Vice President
Steve G. Filton (40)	Vice President and Controller
Sidney Miller (71)	Director and Secretary

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

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

Mr. Servais was elected Senior Vice President of the Company in January 1996, and has served as Vice President of the Company since January 1994, Assistant Vice President of the Company since January 1993, and Group Director since December 1990. Prior thereto, he served as President of Jupiter Hospital Corporation, and Vice President of Operations of American Health Group International.

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

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

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

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

ITEM 2. PROPERTIES

EXECUTIVE OFFICES

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

FACILITIES

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

ACUTE CARE HOSPITALS

NAME OF FACILITY	LOCATION	NUMBER OF BEDS	OWNERSHIP INTEREST
Aiken Regional Medical Centers	Aiken, South Carolina	225	Owned
Auburn Regional Medical Center	Auburn, Washington	149	Owned
Chalmette Medical Center(1)	Chalmette, Louisiana	118	Leased
Desert Springs Hospital(2)	Las Vegas, Nevada	241	Owned
Doctors' Hospital of Shreveport(3)	Shreveport, Louisiana	136	Leased
Edinburg Regional Medical Center	Edinburg, Texas	129	Owned
The George Washington University Hospital(4)	Washington, D.C.	501	Owned
Hospital San Francisco	Rio Piedras, Puerto Rico	160	Owned
Hospital San Pablo	Bayamon, Puerto Rico	430	Owned
Hospital San Pablo del Este	Fajardo, Puerto Rico	180	Owned
Inland Valley Regional Medical Center(1)	Wildomar, California	80	Leased
Manatee Memorial Hospital	Bradenton, Florida	512	Owned
McAllen Medical Center(1)	McAllen, Texas	490	Leased
Northern Nevada Medical Center(4)	Sparks, Nevada	100	Owned
Northwest Texas Healthcare System	Amarillo, Texas	357	Owned
River Parishes Hospitals(5)	LaPlace and Chalmette, Louisiana	175	Leased/Owned
Summerlin Hospital Medical Center(2)	Las Vegas, Nevada	148	Owned
Valley Hospital Medical Center(2)	Las Vegas, Nevada	417	Owned
Victoria Regional Medical Center	Victoria, Texas	147	Owned
Wellington Regional Medical Center(1)	West Palm Beach, Florida	120	Leased

BEHAVIORAL HEALTH CENTERS

NAME OF FACILITY	LOCATION	NUMBER OF BEDS	OWNERSHIP INTEREST
The Arbour Hospital	Boston, Massachusetts	118	Owned
The BridgeWay(1)	North Little Rock, Arkansas	70	Leased
Clarion Psychiatric Center	Clarion, Pennsylvania	52	Owned
Del Amo Hospital	Torrance, California	166	Owned
Forest View Hospital	Grand Rapids, Michigan	62	Owned
Fuller Memorial Hospital	South Attleboro, Massachusetts	82	Owned
Glen Oaks Hospital	Greenville, Texas	54	Owned
The Horsham Clinic	Ambler, Pennsylvania	146	Owned
HRI Hospital	Brookline, Massachusetts	68	Owned
KeyStone Center(6)	Wallingford, Pennsylvania	100	Owned
La Amistad Residential Treatment Center	Maitland, Florida	56	Owned
The Meadows Psychiatric Center	Centre Hall, Pennsylvania	101	Owned

BEHAVIORAL HEALTH CENTERS, CONTINUED

NAME OF FACILITY	LOCATION	NUMBER OF BEDS	OWNERSHIP INTEREST
Meridell Achievement Center(1)	Austin, Texas	114	Leased
The Pavilion	Champaign, Illinois	46	Owned
River Crest Hospital	San Angelo, Texas	80	Owned
River Oaks Hospital	New Orleans, Louisiana	126	Owned
Roxbury(6)	Shippensburg, Pennsylvania	75	Owned
Timberlawn Mental Health System	Dallas, Texas	124	Owned
Turning Point Care Center(6)	Moultrie, Georgia	59	Owned
Two Rivers Psychiatric Hospital	Kansas City, Missouri	80	Owned

AMBULATORY SURGERY CENTERS

NAME OF FACILITY(7)	LOCATION
Arkansas Surgery Center of Fayetteville	Fayetteville, Arkansas
Corona Outpatient Surgery Center	Corona, California
Goldring Surgical and Diagnostic Center	Las Vegas, Nevada
M.D. Physicians Surgicenter of Midwest City	Midwest City, Oklahoma
Outpatient Surgical Center of Ponca City	Ponca City, Oklahoma
St. George Surgical Center	St. George, Utah
Hope Square Surgery Center	Rancho Mirage, California
Surgery Center of Littleton	Littleton, Colorado
Surgery Center of Springfield	Springfield, Missouri
Surgical Center of New Albany	New Albany, Indiana
Surgery Center of Waltham	Waltham, Massachusetts

RADIATION ONCOLOGY CENTERS

NAME OF FACILITY	LOCATION
Auburn Regional Center for Cancer Care	Auburn, Washington
Bluegrass Cancer Center(8)	Frankfort, Kentucky
Bowling Green Radiation Therapy(8)	Bowling Green, Kentucky
Cancer Institute of Nevada	Las Vegas, Nevada
Carolina Cancer Center	Aiken, South Carolina
Columbia Radiation Oncology Center	Washington, D.C.
Danville Radiation Therapy Center(8)	Danville, Kentucky
Glasgow Radiation Therapy(8)	Glasgow, Kentucky
Louisville Radiation Oncology Center(8)	Louisville, Kentucky
Madison Radiation Therapy(9)	Madison, Indiana
Southern Indiana Radiation Therapy(9)	Jeffersonville, Indiana

SPECIALIZED WOMEN'S HEALTH CENTERS

NAME OF FACILITY	LOCATION
Renaissance Women's Center of Edmond(10)	Edmond, Oklahoma
Renaissance Women's Center of Austin(10)	Austin, Texas
Lakeside Women's Center(10)	Oklahoma City, Oklahoma

---

(1) Real property leased from UHT.
(2) Desert Springs Hospital, Summerlin Hospital Medical Center and Valley Hospital Medical Center are owned by a limited liability company in which the Company has a 72.5% interest and Quorum's subsidiary, NC-DSH, Inc., has a 27.5% interest. All hospitals are managed by the Company.
(3) Real property leased with an option to purchase.

(4) General partnership interest in limited partnership.
(5) Includes Chalmette Hospital, a 118-bed rehabilitation facility. The Company owns the LaPlace real property and leases the Chalmette real property from UHT.
(6) Addictive disease facility.
(7) Each facility other than Goldring Surgical and Diagnostic Center is owned in partnership form with the Company owning general and limited partnership interests in a limited partnership. The real property is leased from third parties.
(8) Managed Facility. A partnership, in which the Company is the general partner, owns the real property.
(9) A partnership, in which the Company is the general partner, owns the real property.
(10) Membership interest in limited liability company.

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Inapplicable. No matter was submitted during the fourth quarter of the fiscal year ended December 31, 1997 to a vote of security holders.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

See Item 6, Selected Financial Data

ITEM 6. SELECTED FINANCIAL DATA

	YEAR ENDED DECEMBER 31				
	1997	1996	1995	1994	1993
SUMMARY OF OPERATIONS					
Net revenues	$ 1,442,677,000	$ 1,174,158,000	$ 919,193,000	$ 773,475,000	$ 753,784,000
Net income	$ 67,276,000	$ 50,671,000	$ 35,484,000	$ 28,720,000	$ 24,011,000
Net margin	4.7%	4.3%	3.9%	3.7%	3.2%
Return on average equity	13.5%	13.0%	12.4%	11.8%	11.2%
FINANCIAL DATA					
Cash provided by operating activities	$ 173,499,000	$ 145,256,000	$ 91,749,000	$ 60,624,000	$ 84,640,000
Capital expenditures(1)	$ 132,258,000	$ 107,630,000	$ 65,695,000	$ 48,652,000	$ 52,690,000
Total assets	$ 1,085,349,000	$ 965,795,000	$ 748,051,000	$ 521,492,000	$ 460,422,000
Long-term borrowings	$ 272,466,000	$ 275,634,000	$ 237,086,000	$ 85,125,000	$ 75,081,000
Common stockholders' equity	$ 526,607,000	$ 452,980,000	$ 297,700,000	$ 260,629,000	$ 224,488,000
Percentage of total debt to total capitalization	35%	38%	45%	26%	26%
OPERATING DATA					
Average licensed beds	5,166	4,583	3,876	3,543	3,682
Average available beds	4,713	4,181	3,563	3,241	3,345
Hospital admissions	156,370	133,539	106,627	88,956	85,005
Average length of patient stay	6.1	6.2	6.2	6.5	6.8
Patient days	956,456	821,904	658,015	574,311	580,398
Occupancy rate for licensed beds	51%	49%	47%	44%	43%
Occupancy rate for available beds	56%	54%	51%	49%	48%
PER SHARE DATA					
Net income--basic(2)	$ 2.08	$ 1.69	$ 1.28	$ 1.03	$ 0.89
Net income--diluted(2)	$ 2.03	$ 1.65	$ 1.26	$ 1.01	$ 0.86
OTHER INFORMATION					
Weighted average number of shares outstanding--basic(2)	32,321,000	30,054,000	27,691,000	27,972,000	27,085,000
Weighted average number of shares and share equivalents outstanding--diluted(2)	33,098,000	30,798,000	28,103,000	28,775,000	29,628,000
COMMON STOCK PERFORMANCE					
Market price of common stock High--Low, by quarter(3)					
1st	$34 5/8 -$27 7/8	$26 7/8-$21 11/16	$13 -$11 3/8	$13 5/16-$9 5/8	$8 -$6 5/16
2nd	$40 1/2 -$31 5/8	$30 1/8-$24 3/8	$14 13/16-$12 7/16	$13 7/16-$11 1/4	$8 1/8 -$6 1/2
3rd	$47 1/16-$39 1/16	$27 1/4-$22 3/4	$17 11/16-$14	$14 3/4 -$12 15/16	$8 1/2 -$7 1/4
4th	$50 3/8 -$40 11/16	$29 1/4-$24 1/2	$22 3/16 -$16 1/8	$14 1/16-$10 11/16	$10 5/16-$8 5/16

- - - --------

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

(2) In April 1996, the Company declared a two-for-one stock split in the form of a 100% stock dividend which was paid in May 1996. All classes of common stock participated on a pro rata basis. The weighted average number of common shares and equivalents and earnings per common and common equivalent share for all years presented have been adjusted to reflect the two-for-one stock split. The 1994 and 1993 diluted earnings per share and diluted average number of shares outstanding have been adjusted to reflect the assumed conversion of the Company's convertible debentures. In April 1994, the Company redeemed the debentures which reduced the diluted number of shares outstanding by 902,466.

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

NUMBER OF SHAREHOLDERS OF RECORD AS OF JANUARY 31, 1998, WERE AS FOLLOWS:

Class A Common	9
Class B Common	574
Class C Common	7
Class D Common	266

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

Net revenues increased 23% to $1.4 billion in 1997 as compared to 1996 and 28% to $1.2 billion in 1996 as compared to 1995. The $269 million increase in net revenues during 1997 as compared to 1996 was due primarily to: (i) revenue growth at acute care facilities owned during both years ($100 million); (ii) the acquisition during the third quarter of 1997 of an 80% interest in a partnership which owns a 501-bed acute care hospital located in Washington, DC ($59 million), and; (iii) the acquisitions of a 357-bed medical complex located in Amarillo, Texas during the second quarter of 1996 and five behavioral health centers located in Pennsylvania and Texas during the second and third quarters of 1996 ($82 million). The $255 million increase in net revenues during 1996 as compared to 1995 was due primarily to the 1996 acquisitions mentioned above ($136 million), a 225-bed and a 512-bed acute care facility, both of which were acquired during the third quarter of 1995, net of the effects of three acute care facilities divested during 1995 (net increase of $86 million) and revenue growth at acute care facilities owned during both years ($23 million).

Earnings before interest, income taxes, depreciation, amortization, lease and rental expense and nonrecurring transactions (EBITDAR) increased to $244 million in 1997 from $215 million in 1996 and $163 million in 1995. Overall operating margins were 16.9% in 1997, 18.3% in 1996 and 17.8% in 1995. The decrease in the Company's overall operating margin in 1997 as compared to 1996 was due primarily to losses incurred at the 501-bed acute care facility of which the Company acquired an 80% interest in during the third quarter of 1997, the opening of a newly constructed 129-bed acute care facility located in Edinburg, Texas during the third quarter of 1997 and the opening of a newly constructed 148-bed acute care facility in Summerlin, Nevada which opened during the fourth quarter of 1997. The improvement in the Company's overall operating margin in 1996 as compared to 1995 was due to improvement in operating margins at acute care hospitals and behavioral health centers owned during both years and due to the 1995 results including losses sustained at three acute care facilities divested during 1995.

ACUTE CARE SERVICES

Net revenues from the Company's acute care hospitals, ambulatory treatment centers and specialized women's health centers accounted for 85%, 85% and 86% of consolidated net revenues in 1997, 1996 and 1995, respectively. Net revenues at the Company's acute care facilities owned in both 1997 and 1996 increased 10% in 1997 as compared to 1996 due primarily to an increase in admissions and patient days at these facilities. Each of the Company's acute care facilities owned in both years experienced an increase in admissions in 1997 as compared to 1996 which amounted to a 5% increase in admissions for the acute care division in 1997 as compared to 1996. Patient days at these facilities increased 4% in 1997 as compared to 1996 while the average length of stay at these facilities decreased to 4.8 days in 1997 compared to 4.9 days in 1996. Net revenues at the
Company's acute care facilities owned in both 1996 and 1995 increased 4% in 1996 as compared to 1995. Admissions at the Company's acute care facilities owned in both 1996 and 1995 increased 2% while patient days at these facilities decreased 3% due to a decrease in the average length of stay to 4.9 days in 1996 as compared to 5.1 days in 1995.

The decrease in the average length of stay at the Company's facilities during the past three years was due primarily to improvement in case management of Medicare and Medicaid patients and an increasing shift of

patients into managed care plans which generally have lower lengths of stay. The increase in net revenues at the Company's acute care facilities was caused primarily by an increase in inpatient admissions and an increase in outpatient activity. Outpatient activity continues to increase as gross outpatient revenues at the Company's acute care facilities owned in both 1997 and 1996 increased 10% in 1997 as compared to 1996 and comprised 26% of the Company's gross patient revenues in 1997 as compared to 25% in 1996. Gross outpatient revenues at the Company's acute care facilities owned in both 1996 and 1995 increased 12% in 1996 as compared to 1995 and comprised 25% of gross patient revenues in 1996 as compared to 23% in 1995.

The increase in outpatient revenues is primarily the result of advances in medical technologies and pharmaceutical improvements, which allow more services to be provided on an outpatient basis, and increased pressure from Medicare, Medicaid, health maintenance organizations (HMOs), preferred provided organizations (PPOs) and insurers to reduce hospital stays and provide services, where possible, on a less expensive outpatient basis. The hospital industry in the United States as well as the Company's acute care facilities continue to have significant unused capacity which has created substantial competition for patients. Inpatient utilization continues to be negatively affected by payor-required, pre-admission authorization and by payor pressure to maximize outpatient and alternative healthcare delivery services for less acutely ill patients. The Company expects the increased competition, admission constraints and payor pressures to continue.

To accommodate the increased utilization of outpatient services, the Company has expanded or redesigned several of its outpatient facilities and services. Additionally, the Company has invested in the acquisition and development of outpatient surgery centers, radiation therapy centers and specialized women's health centers. As of December 31, 1997, the Company operated or managed twenty-five outpatient surgery, radiation and specialized women's health centers which generated net revenues of $38 million in 1997, $32 million in 1996 and $23 million in 1995. The Company expects the growth in outpatient services to continue, although the rate of growth may be moderated in the future.

The Company's acute care division generated operating margins (EBITDAR) of 21.3% in 1997, 22.8% in 1996 and 21.7% in 1995. The decrease in the Company's acute care division's operating margin in 1997 as compared to 1996 was due primarily to: (i) losses incurred at the 501-bed acute care facility of which the Company acquired an 80% interest in during the third quarter of 1997; (ii) the opening of a newly constructed 129-bed acute care facility located in Edinburg, Texas during the third quarter of 1997, and; (iii) the opening of a newly constructed 148-bed acute care facility in Summerlin, Nevada which opened during the fourth quarter of 1997. The improvement in the acute care division's operating margin in 1996 as compared to 1995 was primarily the result of the divestiture of three low margin acute care facilities during 1995 and operating margin improvement at an acute care facility acquired during 1994.

The Company's facilities continue to experience a shift in payor mix resulting in an increase in revenues attributable to managed care payors and unfavorable general industry trends which include pressures to control healthcare costs. In response to increased pressure on revenues, the Company continues to implement cost control programs at its facilities including more efficient staffing standards and re-engineering of services. On a same store basis, operating margins at the Company's acute care facilities owned in both 1997 and 1996 were 23.0% and 22.8%, respectively. Operating margins at the Company's facilities owned in both 1996 and 1995 were 23.8% and 23.5%, respectively. The Company has also implemented cost control measures at its newly acquired facilities in an effort to improve operating margins at these facilities from their pre-acquisition levels. Pressure on operating margins is expected to continue due to the industry-wide trend away from charge based payors which limits the Company's ability to increase its prices.

BEHAVIORAL HEALTH SERVICES

Net revenues from the Company's behavioral health facilities accounted for 14% of consolidated net revenues in 1997 and 1996 and 13% of consolidated net revenues in 1995. Net revenues at the Company's behavioral health facilities owned in both 1997 and 1996 increased 3% in 1997 as compared to 1996. Admissions at these facilities increased 8% in 1997 as compared to 1996. Patient days at the Company's behavioral health

facilities owned during both years increased 4% in 1997 as compared to 1996 and the average length of stay decreased 4% to 11.9 days in 1997 as compared to 12.4 days in 1996. Net revenues at the Company's behavioral health facilities owned in both 1996 and 1995 decreased 1% in 1996 as compared to 1995. Admissions at these facilities increased 6% in 1996 as compared to 1995 while patient days decreased 1% in 1996 as compared to 1995 due to a 6% decrease in the average length of stay to 12.0 days in 1996 compared to 12.8 days in 1995.

The reduction in the average length of stay during the last three years is a result of changing practices in the delivery of behavioral health services and continued cost containment pressures from payors which includes a greater emphasis on the utilization of outpatient services. Management of the Company has responded to these trends by continuing to develop and market new outpatient treatment programs. The shift to outpatient care is reflected in higher revenues from outpatient services, as gross outpatient revenues at the Company's behavioral health services facilities owned in both 1997 and 1996 increased 24% in 1997 as compared to 1996 and comprised 20% of gross patient revenues in 1997 as compared to 18% in 1996. Gross outpatient revenues at the Company's behavioral health services facilities owned in both 1996 and 1995 increased 20% in 1996 as compared to 1995 and comprised 18% of gross patient revenues in 1996 as compared to 16% in 1995.

The Company's behavioral health services division generated operating margins (EBITDAR) of 17.2% in 1997, 18.0% in 1996 and 18.1% in 1995. On a same facility basis, operating margins at the Company's behavioral health services facilities owned in both 1997 and 1996 were 18.9% and 19.3%, respectively. The decline in operating margins in 1997 as compared to 1996 was caused primarily by the continued reduction in the length of stay and pricing pressures caused by the increasing shift toward managed care payors. Operating margins at the Company's behavioral health facilities owned in both 1996 and 1995 were 19.4% and 19.2%, respectively. Despite the decline in the average length of stay, the EBITDAR margins within the Company's behavioral health services division increased during 1996 as compared to 1995 due primarily to a slight increase in prices and cost controls implemented in response to the managed care environment.

OTHER OPERATING RESULTS

Depreciation and amortization expense increased $8.8 million to $80.7 million in 1997 as compared to $71.9 million in 1996. The increase was due primarily to the opening of two newly constructed acute care facilities during the third and fourth quarters of 1997 and the acquisitions of an acute care facility and five behavioral health centers during the second and third quarters of 1996. Depreciation and amortization expense increased $20.6 million to $71.9 million in 1996 as compared to $51.4 million in 1995 due primarily to the Company's 1996 acquisitions mentioned above and the 1995 acquisitions of a 225-bed facility and a 512-bed acute care facility, both of which were acquired during the third quarter of 1995.

Interest expense decreased $1.9 million to $19.4 million in 1997 as compared to $21.3 million in 1996 due primarily to a slight reduction in the average outstanding borrowings and the $1 million of interest income earned during 1997 on the $40 million investment of funds restricted for construction for a new acute care facility in Washington, DC. Interest expense increased $10.1 million in 1996 as compared to 1995 due primarily to the increased borrowings related to the purchase of the 357-bed medical complex acquired during the second quarter of 1996, the five behavioral health centers acquired during the second and third quarters of 1996 and a full year of interest expense on the increased borrowings used to finance the acquisition of the two acute care hospitals acquired during the third quarter of 1995. In June 1996, the Company issued four million shares of its Class B Common Stock at a price of $26 per share. The total net proceeds of $99.1 million generated from this stock issuance were used to partially finance the 1996 purchase transactions mentioned above while the excess of the purchase price over the net proceeds ($69 million) were financed with operating cash flows and borrowings under the Company's commercial paper and revolving credit facilities.

During 1996, the Company recorded $4.1 million of nonrecurring charges which consisted of a $2.9 million loss recorded on the anticipated divestiture of an ambulatory treatment center and a $1.2 million charge recorded to fully reserve the carrying value of a behavioral health center owned by the Company and leased to an unaffiliated third party, which is currently in default under the terms of the lease agreement. During 1995, the

Company recorded $11.6 million of nonrecurring charges which consisted of: (i) a $14.2 million pre-tax charge due to impairment of long-lived assets; (ii) a $2.7 million loss on a disposal of two acute care facilities which were exchanged along with $44 million of cash for a 225-bed acute care hospital, and; (iii) a $5.3 million pre-tax gain realized on the sale of a 202-bed acute care hospital which was divested during the fourth quarter of 1995 for cash proceeds of $19.5 million.

During 1995, in conjunction with the development of the Company's operating plan and 1996 budget, management assessed the competitive position of each facility within the portfolio and estimated future cash flows expected from each facility. As a result, the Company recorded a $14.2 million pre-tax charge during 1995 to write-down the carrying value of certain intangible and tangible assets at certain facilities. In measuring the impairment loss, the Company estimated fair value by discounting expected future cash flows from each facility using the Company's internal hurdle rate. The impairment loss related primarily to four facilities in the Company's behavioral health services division and three facilities in its ambulatory treatment center division. Within the behavioral health services division, the impact of managed care was most dramatically felt at the Company's two free standing chemical dependency and two residential treatment centers. Due to increased penetration of managed care payors, changes in CHAMPUS regulations and decreases in admissions, patient days and length of stay at these four facilities, management of the Company determined that profit margins had been permanently impaired. Within the Company's ambulatory treatment center division, three centers are located in highly competitive markets which have become heavily penetrated with managed care. As a result, these ambulatory treatment centers experienced decreases in net revenues per case and case volumes which resulted in permanent impairment of carrying value. During the fourth quarter of 1996, the Company recorded a $2.9 million charge to write-down the carrying value of one of these ambulatory treatment centers which was divested in 1997. This divestiture had no material impact on the 1997 financial statements.

The effective tax rate was 36.5%, 36.7% and 33.0% in 1997, 1996 and 1995, respectively. The effective rate was lower in 1995 as compared to 1997 and 1996 due to 1995 including the deductibility of previously non-deductible goodwill amortization resulting from the sale of three acute care hospitals in 1995.

GENERAL TRENDS

An increased proportion of the Company's revenue is derived from fixed payment services, including Medicare and Medicaid which accounted for 50%, 51% and 49% of the Company's net patient revenues during 1997, 1996 and 1995, respectively. The Medicare program reimburses the Company's hospitals primarily based on established rates by a diagnosis related group for acute care hospitals and by cost based formula for behavioral health facilities. Historically, rates paid under Medicare's prospective payment system ("PPS") for inpatient services have increased, however, these increases have been less than cost increases. Pursuant to the terms of The Balanced Budget Act of 1997 (the "1997 Act"), there will be no increases in the rates paid to hospitals for inpatient care through September 30, 1998. Reimbursement for bad debt expense and capital costs as well as other items have been reduced. The Company does not expect the changes mandated by the 1997 Act to have a material adverse effect on the results of operations. While the Company is unable to predict what, if any, future health reform legislation may be enacted at the federal or state level, the Company expects continuing pressure to limit expenditures by governmental healthcare programs. Further changes in the Medicare or Medicaid programs and other proposals to limit healthcare spending could have a material adverse impact upon the Company's results of operations and the healthcare industry.

In Texas, a law has been passed which mandates that the state senate apply for a waiver from current Medicaid regulations to allow the state to require that certain Medicaid participants be serviced through managed care providers. The Company is unable to predict whether Texas will be granted such a waiver or the effect on the Company's business of such a waiver. Upon meeting certain conditions, and serving a disproportionately high share of Texas' and South Carolina's low income patients, three of the Company's facilities located in Texas and one facility located in South Carolina became eligible and received additional reimbursements from each state's disproportionate share hospital fund. Included in the Company's financial results was an aggregate of $33.4 million in 1997, $17.8 million in 1996 and $12.6 million in 1995 received pursuant to the terms of

these programs. These programs are scheduled to terminate in the third quarter of 1998 and the Company cannot predict whether these programs will continue beyond their scheduled termination date. In addition to the Medicare and Medicaid programs, other payors continue to actively negotiate the amounts they will pay for services performed. In general, the Company expects the percentage of its business from managed care programs, including HMOs and PPOs to grow. The consequent growth in managed care networks and the resulting impact of these networks on the operating results of the Company's facilities vary among the markets in which the Company operates.

Effective January 1, 1998, the Company is covered under commercial insurance policies which provide for a self-insured retention limit for professional and general liability claims for most of its subsidiaries up to $1 million per occurrence, with an average annual aggregate for covered subsidiaries of $4 million through 2001. These subsidiaries maintain excess coverage up to $100 million with major insurance carriers. The Company's remaining facilities are fully insured under commercial policies with excess coverage up to $100 million maintained with major insurance carriers. During 1996 and 1997, most of the Company's subsidiaries were self-insured for professional and general liability claims up to $5 million per occurrence, with excess coverage maintained up to $100 million with major insurance carriers.

The Company recognizes the need to ensure its operations will not be adversely impacted by year 2000 software failures. In 1997, the Company began establishing processes for evaluating and managing the risks and costs associated with this issue. These processes include arrangements with the Company's major outsourcing vendor to modify its computer system programming to allow for year 2000 processing capability. Such modifications are expected to be completed by the end of 1998. Anticipated spending for these modifications has been and will be expensed as incurred and is not expected to have a significant impact on the Company's ongoing results of operations. The Company also expects that certain medical and related equipment that cannot be made year 2000 compliant will need to be replaced, but does not expect the cost of such replacement to be material.

EFFECTS OF INFLATION AND CHANGING PRICES

The healthcare industry is very labor intensive and salaries and benefits are subject to inflationary pressures as are supply costs which tend to escalate as vendors pass on the rising costs through price increases. Inflation has not had a material impact on the results of operations during the last three years. Although the Company cannot predict its ability to continue to cover future cost increases, management believes that through the adherence to cost containment policies, labor management and reasonable price increases, the effects of inflation on future operating margins should be manageable. However, the Company's ability to pass on these increased costs associated with providing healthcare to Medicare and Medicaid patients is limited due to various federal, state and local laws which have been enacted, that, in certain cases, limit the Company's ability to increase prices. Under the terms of the Balanced Budget Act of 1997, there will be no increases in the rates paid to hospitals for inpatient care through September 30, 1998. In addition, as a result of increasing regulatory and competitive pressures, the Company's ability to maintain margins through price increases to non-Medicare patients is limited.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $173 million in 1997, $145 million in 1996 and $92 million in 1995. The $28 million increase in 1997 as compared to 1996 was primarily attributable to a $25 million increase in the net income plus the addback of the non-cash charges (depreciation, amortization, provision for self-insurance reserves and other non-cash charges) and a $20 million increase in other net working capital changes partially offset by a $9 million increase in income tax payments and an $8 million increase in payments made in settlement of self-insurance claims. The $53 million increase in 1996 as compared to 1995 was primarily attributable to a $30 million increase in net income plus the addback of non-cash charges (depreciation, amortization, provision for self-insurance reserves and other non-cash charges) and a $25 million decrease in the payment of income taxes. During each of the last three years, the net cash provided by operating activities substantially exceeded the scheduled maturities of long-term debt.

During the first quarter of 1998, the Company completed its acquisition of three acute care hospitals located in Puerto Rico for a combined purchase price of $186 million. The hospitals acquired are located in Bayamon (430-beds), Rio Piedras (160-beds) and Fajardo (180-beds). These acquisitions were financed with funds borrowed under the Company's revolving credit facility. Also during the first quarter of 1998, the Company contributed substantially all of the assets, liabilities and operations of Valley Hospital Medical Center, a 417-bed acute care facility, and its newly-constructed Summerlin Hospital Medical Center, a 148-bed acute care facility in exchange for a 72.5% interest in a series of newly-formed limited liability companies ("LLCs"). Quorum Health Group, Inc. ("Quorum") holds the remaining 27.5% interest in the LLCs. Quorum obtained its interest by contributing substantially all of the assets, liabilities and operations of Desert Springs Hospital, a 241-bed acute care facility and $23 million of cash to the LLCs. As a result of this partial sale transaction, the Company expects to record a pre-tax gain of approximately $50 million to $55 million that will be recorded as a capital contribution to the Company in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 51. The Company does not expect this merger to have a material impact on its 1998 results of operations.

During 1997 the Company acquired an 80% interest in a partnership which owns and operates The George Washington University Hospital, a 501-bed acute care facility located in Washington, DC. The George Washington University ("GWU") holds a 20% interest in the partnership. In connection with this acquisition, the Company provided an immediate commitment of $80 million, consisting of $40 million in cash (which has been invested and is restricted for construction) and a $40 million letter of credit. The Company and GWU are planning to build a newly constructed 400-bed acute care facility which is scheduled to be completed in 2001. The total cost of this new facility is estimated to be approximately $96 million, of which the Company intends to finance a total of $83 million (including the $80 million immediate commitment mentioned above) with the remainder being financed by GWU and the interest earnings on the $40 million of funds restricted for construction. During the third and fourth quarters of 1997, the Company completed construction and opened the following facilities: (i) a 129-bed acute care facility located in Edinburg, Texas; (ii) a medical complex located in Summerlin, Nevada including a 148-bed acute care facility, and; (iii) two newly constructed specialized women's health centers located in Austin, Texas and Lakeside, Oklahoma of which the Company owns interests in limited liability companies ("LLC") which own and operate the facilities. During 1997, the LLC which operates the specialized women's health center in Lakeside, Oklahoma sold the real and personal property of this facility which was then leased-back pursuant to the terms of a 20-year lease. The Company spent $71 million during the year (net of $8 million of proceeds received for sale-leaseback of the specialized women's health center located in Oklahoma and $4 million received for sale of a minority interest in the specialized women's health center located in Austin, Texas) for completion of these newly constructed facilities. Also during the year, the Company spent an additional $11 million to acquire various behavioral healthcare related businesses.

During 1996 the Company acquired the following facilities for total consideration of $168 million: (i) substantially all the assets and operations of a 357-bed medical complex located in Amarillo, Texas for $126 million in cash; (ii) substantially all the assets and operations of four behavioral health centers located in Pennsylvania and management contracts to seven other behavioral health centers for $39 million in cash, and; (iii) substantially all the assets and operations of a 164-bed behavioral health facility located in Texas for $3 million in cash. Also during 1996, the Company spent $53 million on the construction of the new acute care facilities located in Edinburg, Texas and Summerlin, Nevada which opened during 1997 as mentioned above.

During 1995 the Company acquired the following facilities for two acute care facilities and total cash consideration of $188 million and the assumption of net liabilities of approximately $4 million: (i) a 512-bed acute care hospital located in Bradenton, Florida for approximately $139 million in cash and the assumption of net liabilities of $4 million; (ii) a 225-bed acute care facility located in Aiken , South Carolina for approximately $44 million in cash and a 104-bed acute care hospital and a 126-bed acute care hospital, and; (iii) a 82-bed behavioral health facility located in South Attleboro, Massachusetts and a majority interest in two separate partnerships which own and operate two outpatient surgery centers for total cash consideration of approximately $5 million. Also during 1995, the Company sold the operations and substantially all the assets of a 202-bed acute

care hospital located in Plantation, Florida for cash proceeds of approximately $20 million. The sale resulted in a $5.3 million pre-tax gain which has been included in nonrecurring charges in the 1995 consolidated statement of income.

Capital expenditures, net of proceeds received from sale or disposition of assets, were $114 million in 1997, $106 million in 1996 and $61 million in 1995. Capital expenditures in 1998 are expected to be approximately $56 million for capital equipment and renovations at existing facilities. Additionally, capital expenditures for new projects at existing hospitals and medical office buildings are expected to total approximately $27 million in 1998. The estimated cost to complete major construction projects in progress at December 31, 1997 is approximately $45 million. The Company believes that its capital expenditure program is adequate to expand, improve and equip its existing hospitals.

Total debt as a percentage of total capitalization was 35% at December 31, 1997, 38% at December 31, 1996 and 45% at December 31, 1995. The decrease during 1996 as compared to 1995 was due primarily to the issuance of additional shares of the Company's Class B Common Stock used to partially finance the 1996 purchase transactions mentioned above. During the second quarter of 1996, the Company issued four million shares of its Class B Common Stock at a price of $26 per share. The total net proceeds of $99.1 million generated from this stock issuance were used to partially finance the 1996 purchase transactions mentioned above while the excess of the purchase price over the net proceeds generated from the stock issuance ($69 million) were financed from operating cash flows and borrowings under the Company's commercial paper and revolving credit facilities.

During 1997, the Company entered into a new revolving credit agreement. The agreement, which matures in July 2002, provides for up to $300 million in borrowing capacity. During the term of this agreement, the Company has the option to petition the banks to increase the borrowing capacity to $400 million. The agreement provides for interest at the Company's option at the prime rate, certificate of deposit plus 3/8% to 5/8%, Euro-dollar plus 1/4% to 1/2% or a money market. A facility fee ranging from 1/8% to 3/8% is required on the total commitment. At December 31, 1997, the Company had $224 million of unused borrowing capacity available under the revolving credit agreement.

Also during 1997, the Company amended its commercial paper credit facility to increase the borrowing capacity to $75 million from $50 million and to reduce the commitment fee. A large portion of the Company's accounts receivable are pledged as collateral to secure this commercial paper program. The Company has sufficient patient receivables to support a larger program and upon mutual consent of the Company and the participating lending institutions, the commitment can be increased to $100 million. At December 31, 1997, the Company had no available unused borrowing capacity under the commercial paper credit facility.

During 1997, the Company entered into interest rate protection to fix the rate of interest on a notional principal amount of $50 million for a period of three years beginning in January, 1998. The average fixed rate obtained through these interest rate swaps is 6.125% including the Company's current borrowing spread of .35%. The counterparty of these interest rate swaps has the right to terminate the swap after the second year. The Company also entered into $75 million of forward starting interest rate swaps starting in August, 2000 locking in a fixed rate of 7.09% through August, 2010. At December 31, 1997 and 1996, there were no active interest rate swap agreements.

The effective interest rate on the Company's revolving credit, demand notes and commercial paper program, including the interest rate swap expense incurred on now expired interest rate swaps was 6.8% in 1997, 6.9% in 1996 and 8.4% in 1995. Additional interest expense recorded as a result of the Company's hedging activity was $0 in 1997, $47,000 in 1996 and $209,000 in 1995. The Company is exposed to credit loss in the event of non-performance by the counterparty to the interest rate swap agreements. All of the counterparties are major financial institutions rated AA or better by Moody's Investor Service and the Company does not anticipate non-performance. The cost to terminate the swap obligations at December 31, 1997 was approximately $1.8 million.

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

FORWARD-LOOKING STATEMENTS

The matters discussed in this report as well as the news releases issued from time to time by the Company include certain statements containing the words "believes", "anticipates", "intends", "expects" and words of similar import, which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance achievements of the Company or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the following: that the majority of the Company's revenues are produced by a small number of its total facilities, possible changes in the levels and terms of reimbursement for the Company's charges by government programs, including Medicare or Medicaid or other third party payors, the ability to attract and retain qualified personnel, including physicians, the ability of the Company to successfully integrate its recent acquisitions and the Company's ability to finance growth on favorable terms. Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Common Stockholders' Equity, and Consolidated Statements of Cash Flows, together with the report of Arthur Andersen LLP, independent public accountants, are included elsewhere herein. Reference is made to the "Index to Financial Statements and Financial Statement Schedule."

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

There is hereby incorporated by reference the information to appear under the caption "Election of Directors" in the Company's Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after December 31, 1997. See also "Executive Officers of the Registrant" appearing in Part I hereof.

ITEM 11. EXECUTIVE COMPENSATION

There is hereby incorporated by reference the information to appear under the caption "Executive Compensation" in the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after December 31, 1997.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

There is hereby incorporated by reference the information to appear under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Company's Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after December 31, 1997.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There is hereby incorporated by reference the information to appear under the caption "Certain Relationships and Related Transactions" in the Company's Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after December 31, 1997.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(A) 1. AND 2. FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE.

See Index to Financial Statements and Financial Statement Schedule on page 27.

(B) REPORTS ON FORM 8-K

None.

(C) EXHIBITS

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

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

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

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

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

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

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

10.4 Agreement, effective January 1, 1998, to renew Advisory Agreement, dated as of December 24, 1986, between Universal Health Realty Income Trust and UHS of Delaware, Inc.

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

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

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

10.8 1990 Employees' Restricted Stock Purchase Plan, previously filed as Exhibit 10.24 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1990, is incorporated herein by reference.

10.9 1992 Corporate Ownership Program, previously filed as Exhibit 10.24 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1991, is incorporated herein by reference.

10.10 1992 Stock Bonus Plan, previously filed as Exhibit 10.25 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1991, is incorporated herein by reference.

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

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

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

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

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

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

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

10.18 1994 Executive Incentive Plan, previously filed as Exhibit 10.22 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by reference.

10.19 Credit Agreement, dated as of July 8, 1997 among Universal Health Services, Inc., various banks and Morgan Guaranty Trust Company of New York, as agent, previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, is incorporated herein by reference.

10.20 Amended and Restated 1989 Non-Employee Director Stock Option Plan, previously filed as Exhibit 10.24 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1994, is incorporated herein by reference.

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

10.22 1992 Stock Option Plan, as Amended, previously filed as Exhibit 10.26 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995, is incorporated herein by reference.

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

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

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

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

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

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

10.29 Stock Purchase Agreement dated as of December 15, 1997, by and among the Stockholders of Hospital San Pablo, Inc. and Universal Health Services, Inc., and UHS of Puerto Rico, Inc.

10.30 Valley/Desert Contribution Agreement dated January 30, 1998, by and among Valley Hospital Medical Center, Inc. and NC-DSH, Inc.

10.31 Summerlin Contribution Agreement dated January 30, 1998, by and among Summerlin Hospital Medical Center, L.P. and NC-DSH, Inc.

10.32 1992 Stock Option Plan, As Amended.

22. Subsidiaries of Registrant.

24. Consent of Independent Public Accountants.

27. Financial Data Schedule.

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

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

Universal Health Services, Inc.

By: /s/ Alan B. Miller
ALAN B. MILLER
PRESIDENT

March 5, 1998

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURES	TITLE	DATE
/s/ Alan B. Miller ALAN B. MILLER	Chairman of the Board, President and Director (Principal Executive Officer)	March 5, 1998
/s/ Sidney Miller SIDNEY MILLER	Secretary and Director	March 9, 1998
/s/ Anthony Pantaleoni ANTHONY PANTALEONI	Director	March 9, 1998
/s/ Martin Meyerson MARTIN MEYERSON	Director	March 9, 1998
/s/ Robert H. Hotz ROBERT H. HOTZ	Director	March 9, 1998
/s/ John H. Herrell JOHN H. HERRELL	Director	March 9, 1998
/s/ Paul R. Verkuil PAUL R. VERKUIL	Director	March 9, 1998
/s/ Leatrice Ducat LEATRICE DUCAT	Director	March 9, 1998
/s/ Kirk E. Gorman KIRK E. GORMAN	Senior Vice President and Chief Financial Officer	March 5, 1998
/s/ Steve Filton STEVE FILTON	Vice President, Controller and Principal Accounting Officer	March 5, 1998

UNIVERSAL HEALTH SERVICES, INC.

INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE

(ITEM 14(a))

Consolidated Financial Statements:

Report of Independent Public Accountants on Consolidated Financial Statements and Schedule	28
Consolidated Statements of Income for the three years ended December 31, 1997	29
Consolidated Balance Sheets as of December 31, 1997 and 1996	30
Consolidated Statements of Cash Flows for the three years ended December 31, 1997	31
Consolidated Statements of Common Stockholders' Equity for the three years ended December 31, 1997	32
Notes to Consolidated Financial Statements	33
Supplemental Financial Statement Schedule II: Valuation and Qualifying Accounts	47

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Universal Health Services, Inc. (Delaware corporation) and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, common stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Universal Health Services, Inc. and subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

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

Arthur Andersen LLP

Philadelphia, Pennsylvania
February 12, 1998

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31		
	1997	1996	1995
Net revenues	$1,442,677,000	$1,174,158,000	$919,193,000
Operating charges			
Operating expenses	575,088,000	458,063,000	361,049,000
Salaries and wages	514,407,000	420,525,000	329,939,000
Provision for doubtful accounts	108,790,000	80,820,000	64,972,000
Depreciation & amortization	80,686,000	71,941,000	51,371,000
Lease and rental expense	38,401,000	37,484,000	36,068,000
Interest expense, net	19,382,000	21,258,000	11,195,000
Nonrecurring charges	--	4,063,000	11,610,000
Total operating charges	1,336,754,000	1,094,154,000	866,204,000
Income before income taxes	105,923,000	80,004,000	52,989,000
Provision for income taxes	38,647,000	29,333,000	17,505,000
Net income	$ 67,276,000	$ 50,671,000	$ 35,484,000
Earnings per common share--basic	$ 2.08	$ 1.69	$ 1.28
Earnings per common & common share equivalents--diluted	$ 2.03	$ 1.65	$ 1.26
Weighted average number of common shares--basic	32,321,000	30,054,000	27,691,000
Weighted average number of common share equivalents	777,000	744,000	412,000
Weighted average number of common shares and equivalents--diluted	33,098,000	30,798,000	28,103,000

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31	
	1997	1996
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 332,000	$ 288,000
Accounts receivable, net	180,252,000	145,364,000
Supplies	28,214,000	22,019,000
Deferred income taxes	11,105,000	12,313,000
Other current assets	10,119,000	13,969,000
Total current assets	230,022,000	193,953,000
PROPERTY AND EQUIPMENT		
Land	66,406,000	63,503,000
Buildings and improvements	538,326,000	465,781,000
Equipment	308,695,000	257,170,000
Property under capital lease	27,712,000	27,243,000
	941,139,000	813,697,000
Less accumulated depreciation	328,881,000	271,936,000
	612,258,000	541,761,000
Funds restricted for construction	41,031,000	--
Construction-in-progress	9,822,000	25,867,000
	663,111,000	567,628,000
OTHER ASSETS		
Excess of cost over fair value of net assets acquired	149,814,000	150,336,000
Deferred income taxes	--	9,993,000
Deferred charges	10,852,000	11,237,000
Other	31,550,000	32,648,000
	192,216,000	204,214,000
	$1,085,349,000	$965,795,000
LIABILITIES AND COMMON STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 5,655,000	$ 6,866,000
Accounts payable	70,807,000	57,117,000
Accrued liabilities		
Compensation and related benefits	35,498,000	27,278,000
Interest	4,682,000	4,899,000
Other	42,107,000	43,147,000
Federal and state taxes	1,707,000	772,000
Total current liabilities	160,456,000	140,079,000
OTHER NONCURRENT LIABILITIES	125,286,000	97,102,000
LONG-TERM DEBT	272,466,000	275,634,000
DEFERRED INCOME TAXES	534,000	--
COMMITMENTS AND CONTINGENCIES		
COMMON STOCKHOLDERS' EQUITY		
Class A Common Stock, voting, $.01 par value; authorized 12,000,000 shares; issued and outstanding 2,059,929 shares in 1997 and 2,060,929 in 1996	21,000	21,000
Class B Common Stock, limited voting, $.01 par value; authorized 75,000,000 shares; issued and outstanding 30,122,479 shares in 1997 and 29,816,153 in 1996	301,000	298,000
Class C Common Stock, voting, $.01 par value; authorized 1,200,000 shares; issued and outstanding 207,230 shares in 1997 and 207,230 in 1996	2,000	2,000
Class D Common Stock, limited voting, $.01 par value; authorized 5,000,000 shares; issued and outstanding 32,063 shares in 1997 and 36,805 in 1996	--	--
Capital in excess of par value, net of deferred compensation of $295,000 in 1997 and $377,000 in 1996	200,656,000	194,308,000
Retained earnings	325,627,000	258,351,000
	526,607,000	452,980,000
	$1,085,349,000	$965,795,000

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31		
	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 67,276,000	$ 50,671,000	$ 35,484,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	80,686,000	71,941,000	51,371,000
Provision for self-insurance reserves	20,003,000	15,874,000	14,291,000
Other non-cash charges	--	4,063,000	11,610,000
Changes in assets and liabilities, net of effects from acquisitions and dispositions:			
Accounts receivable	(14,434,000)	(93,000)	(5,125,000)
Accrued interest	(217,000)	(614,000)	3,071,000
Accrued and deferred income taxes	16,241,000	15,699,000	(20,826,000)
Other working capital accounts	13,315,000	3,434,000	10,944,000
Other assets and deferred charges	334,000	(5,125,000)	(3,982,000)
Other	6,527,000	(2,722,000)	3,390,000
Payments made in settlement of self-insurance claims	(16,232,000)	(7,872,000)	(8,479,000)
Net cash provided by operating activities	173,499,000	145,256,000	91,749,000
CASH FLOWS FROM INVESTING ACTIVITIES:			
Property and equipment additions	(129,199,000)	(105,728,000)	(60,734,000)
Funds restricted for construction related to acquisition of business	(41,031,000)	--	--
Acquisition of businesses	(10,525,000)	(168,429,000)	(187,865,000)
Proceeds received from sale or dispostion of assets	15,230,000	1,765,000	2,321,000
Note receivable related to acquisition	--	(7,000,000)	--
Acquisition of assets held for lease	--	--	(3,561,000)
Disposition of businesses	--	--	19,495,000
Net cash used in investing activities	(165,525,000)	(279,392,000)	(230,344,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Additional borrowings, net of financing costs	25,000,000	41,800,000	149,323,000
Reduction of long-term debt	(34,510,000)	(7,699,000)	(12,009,000)
Issuance of common stock	1,580,000	100,289,000	535,000
Net cash (used in) provided by financing activities	(7,930,000)	134,390,000	137,849,000
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	44,000	254,000	(746,000)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	288,000	34,000	780,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 332,000	$ 288,000	$ 34,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid	$ 19,599,000	$ 21,872,000	$ 8,124,000
Income taxes paid, net of refunds	$ 22,265,000	$ 13,634,000	$ 38,331,000

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

See Notes 2 and 6

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 1997, 1996, AND 1995

	CLASS A COMMON	CLASS B COMMON	CLASS C COMMON	CLASS D COMMON	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	TOTAL
Balance January 1, 1995	$11,000	$126,000	$1,000	--	$88,295,000	$172,196,000	$260,629,000
Common Stock Issued	--	1,000	--	--	1,117,000	--	1,118,000
Amortization of deferred compensation	--	--	--	--	469,000	--	469,000
Net income	--	--	--	--	--	35,484,000	35,484,000
Balance January 1, 1996	11,000	127,000	1,000	--	89,881,000	207,680,000	297,700,000
Common Stock Issued	--	42,000	--	--	103,871,000	--	103,913,000
Converted	(1,000)	1,000	--	--	--	--	--
Stock dividend	11,000	128,000	1,000	--	(140,000)	--	--
Amortization of deferred compensation	--	--	--	--	696,000	--	696,000
Net income	--	--	--	--	--	50,671,000	50,671,000
Balance January 1, 1997	21,000	298,000	2,000	--	194,308,000	258,351,000	452,980,000
Common Stock Issued	--	3,000	--	--	6,141,000	--	6,144,000
Amortization of deferred compensation	--	--	--	--	286,000	--	286,000
Cancellation of stock grant	--	--	--	--	(79,000)	--	(79,000)
Net income	--	--	--	--	--	67,276,000	67,276,000
Balance, December 31, 1997	$21,000	$301,000	$2,000	--	$200,656,000	$325,627,000	$526,607,000

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NATURE OF OPERATIONS: The principal business of the Company is owning and operating acute care hospitals, behavioral health centers, ambulatory surgery centers, radiation oncology centers and specialized women's health centers. At December 31, 1997, the Company operated 40 hospitals, consisting of 17 acute care hospitals, 20 behavioral health centers and 3 specialized women's health centers, in 15 states and the District of Columbia. The Company, as part of its Ambulatory Treatment Centers Division owns outright, or in partnership with physicians, and operates or manages 22 surgery and radiation oncology centers located in 12 states and the District of Columbia.

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

Net revenues from the Company's acute care hospitals, ambulatory and outpatient treatment centers and specialized women's health center accounted for 85%, 85% and 86% of consolidated net revenues in 1997, 1996 and 1995, respectively.

NET REVENUES: Net revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. These net revenues are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Medicare and Medicaid net revenues represented 50%, 51% and 49% of net patient revenues for the years 1997, 1996 and 1995, respectively.

CONCENTRATION OF REVENUES: Valley Hospital Medical Center, McAllen Medical Center and Northwest Texas Healthcare System contributed 12%, 13% and 12%, respectively, of the Company's 1997 consolidated net revenues.

ACCOUNTS RECEIVABLE: Accounts receivable are recorded at the estimated net realizable amounts from patients, third-party payors and others for services rendered, net of contractual allowances and net of allowance for doubtful accounts of $46,615,000 and $30,398,000 in 1997 and 1996, respectively.

PROPERTY AND EQUIPMENT: Property and equipment are stated at cost. Expenditures for renewals and improvements are charged to the property accounts. Replacements, maintenance and repairs which do not improve or extend the life of the respective asset are expensed as incurred. The Company removes the cost and the related accumulated depreciation from the accounts for assets sold or retired and the resulting gains or losses are included in the results of operations. The Company capitalized $1.1 million, $800,000 and $300,000 of interest costs related to construction in progress in 1997, 1996 and 1995, respectively.

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

OTHER ASSETS: The excess of cost over fair value of net assets acquired in purchase transactions, net of accumulated amortization of $53,546,000 in 1997 and $38,620,000 in 1996, is amortized using the straight-line method over periods ranging from five to forty years.

During 1994, the Company established an employee life insurance program covering approximately 2,200 employees. At December 31, 1997 and 1996, the cash surrender value of the policies ($103 million in both years) were recorded net of related loans ($102 million in both years) and is included in other assets.

LONG-LIVED ASSETS: It is the Company's policy to review the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable.

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

INCOME TAXES: The Company and its subsidiaries file consolidated federal tax returns. Deferred taxes are recognized for the amount of taxes payable or deductible in future years as a result of differences between the tax bases of assets and liabilities and their reported amounts in the financial statements.

OTHER NONCURRENT LIABILITIES: Other noncurrent liabilities include the long-term portion of the Company's professional and general liability and workers' compensation reserves, pension liability and minority interests in majority owned subsidiaries and partnerships.

EARNINGS PER SHARE: In February 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings per Share" (SFAS 128). SFAS 128 establishes standards for computing and presenting earnings per share (EPS). Basic earnings per share are based on the weighted average number of common shares outstanding during the year. Diluted earnings per share are based on the weighted average number of common shares outstanding during the year adjusted to give effect to common stock equivalents. All per share amounts for all periods presented have been restated to conform to SFAS 128.

STATEMENT OF CASH FLOWS: For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents. Interest expense in the consolidated statements of income is net of interest income of $1,282,000, $173,000 and $567,000 in 1997, 1996 and 1995, respectively.

INTEREST RATE SWAP AGREEMENTS: In managing interest rate exposure, the Company at times enters into interest rate swap agreements. When interest rates change, the differential to be paid or received is accrued as interest expense and is recognized over the life of the agreements. Gains and losses on terminated interest rate swap agreements are amortized into income over the remaining life of the underlying debt obligation or the remaining life of the original swap, if shorter.

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

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

RECLASSIFICATIONS: Prior to 1997, the Company included charity care services as a component of its provision for doubtful accounts. Effective January 1, 1997, in accordance with healthcare industry practice, the Company began excluding charity care from net revenues, and has reclassified prior year amounts to conform with this presentation. The change in presentation has no effect on reported net income.

2) ACQUISITIONS AND DIVESTITURES

1998 -- Subsequent to year-end, the Company acquired three hospitals located in Puerto Rico for an aggregate purchase price of $186 million. The hospitals acquired are located in Bayamon (430-beds), Rio Piedras (160-beds) and Fajardo (180-beds).

In addition, the Company contributed substantially all of the assets, liabilities and operations of Valley Hospital Medical Center, a 417-bed acute care facility, and its newly-constructed Summerlin Hospital Medical Center, a 148-bed acute care facility for a 72.5% interest in a series of newly-formed limited liability companies ("LLCs"). Quorum Health Group, Inc. ("Quorum") holds the remaining interest in the LLCs. Quorum obtained its 27.5% interest by contributing substantially all of the assets, liabilities and operations of Desert Springs Hospital, a 241-bed acute care facility, and $23 million in cash to the LLCs. As a result of this partial sale transaction, the Company expects to record a pre-tax gain of approximately $50 million to $55 million that will be recorded as a capital contribution to the Company in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 51. The Company does not expect this merger to have a material impact on its 1998 results of operations.

1997 -- During the third quarter of 1997 the Company acquired an 80% interest in a partnership which owns and operates The George Washington University Hospital, a 501-bed acute care facility located in Washington, DC. The George Washington University ("GWU") holds a 20% interest in the partnership. In connection with this acquisition, the Company provided an immediate commitment of $80 million, consisting of $40 million in cash (which has been invested and is restricted for construction) and a $40 million letter of credit. The Company and GWU are planning to build a newly constructed 400-bed acute care facility which is scheduled to be completed in 2001. The total cost of this new facility is estimated to be approximately $96 million, of which the Company intends to finance a total of $83 million (including the $80 million immediate commitment mentioned above) with the remainder being financed by GWU and the interest earnings on the $40 million of funds restricted for construction.

In addition, during the third and fourth quarters the Company completed construction and opened the following facilities: (i) a 129-bed acute care facility located in Edinburg, Texas; (ii) a medical complex located in Summerlin, Nevada including a 148-bed acute care facility, and; (iii) two newly constructed specialized women's health centers located in Austin, Texas and Lakeside, Oklahoma of which the Company owns interests in limited liability companies ("LLC") which own and operate the facilities. The Company spent a total of $71 million during 1997 for completion of these newly constructed facilities. Also during 1997, the Company spent an additional $11 million to acquire various behavioral healthcare related businesses.

Assuming the 1997 acquisition of GWUH had been completed as of January 1, 1997, the unaudited pro forma net revenues would have been $1.5 billion and the effect on net income and basic and diluted earnings per share would have been immaterial.

1996 -- During the second quarter, the Company completed the acquisition of Northwest Texas Healthcare System, a 357-bed medical complex located in Amarillo, Texas for $126 million in cash. The assets acquired include the real and personal property, working capital and tangible assets. The Company also will be required to pay additional consideration to the seller equal to 15% of any amount of the hospital's earnings before depreciation, interest and taxes in excess of $24 million in each year of the seven-year period ending March 31, 2003. The additional consideration paid in 1997 was not material. In addition, under the terms of the agreement, the seller will pay the Company $8 million per year for the first four years and $6 million per year (subject to certain adjustments for inflation) for up to an additional 36 years to help support the cost of medical services to indigent patients.

During the second quarter, the Company acquired four behavioral health centers located in Pennsylvania, management contracts for seven other behavioral health centers and 33 acres of land adjacent to the Company's Wellington Regional Medical Center, for $39 million. In 1997, the Company paid additional consideration of $8 million, based upon the facilities' combined earnings, as defined, for the 12-month period ending April 30, 1997. This additional consideration was recorded as additional goodwill in the 1997 financial statements.

During the third quarter of 1996, the Company acquired a 164-bed behavioral health center located in Texas for $3 million. Also during the fourth quarter of 1996, as a result of divestiture negotiations with a third party regarding one of the Company's ambulatory treatment centers, the Company recorded a $2.9 million charge to write-down the carrying value of the center to its net realizable value. The divestiture of this facility, which had no material effect on the 1997 financial statements, was completed during the first quarter of 1997.

The acquisitions mentioned above have been accounted for using the purchase method of accounting. The excess of cost over fair value of net tangible assets relating to these acquisitions is being amortized over a 15-year period. Operating results of the acquired facilities have been included in the financial statements from the date of acquisition. The aggregate purchase price of $168 million, excluding the additional contingent consideration recorded in 1997, was allocated to assets and liabilities based on their estimated fair values as follows:

	AMOUNT (000S)
Working capital, net	$ 25,000
Land	9,000
Buildings & equipment	110,000
Goodwill	24,000
Total Purchase Price	$168,000

Assuming the 1996 acquisitions had been completed as of January 1, 1996, the unaudited pro forma net revenues and net income for the year ended December 31, 1996 would have been approximately $1.3 billion and $53.4 million, respectively. In addition, the unaudited pro forma basic and diluted earnings per share would have been $1.78 and $1.73, respectively. Assuming the 1996 acquisitions and the 1995 acquisitions of Aiken Regional Medical Centers and Manatee Memorial Hospital had been completed as of January 1, 1995, the unaudited pro forma net revenues and net income for the year ended December 31, 1995 would have been approximately $1.2 billion and $46.5 million, respectively. In addition, the unaudited pro forma basic and diluted earnings per share would have been $1.47 and $1.44, respectively.

1995 -- During the second quarter, the Company acquired an 82-bed behavioral health facility located in South Attleboro, Massachusetts for approximately $3 million. The Company also purchased for approximately $2 million, a majority interest in two separate partnerships that own and operate outpatient surgery centers located in Fayetteville, Arkansas and Somersworth, New Hampshire.

During the third quarter, the Company completed the acquisition of Aiken Regional Medical Centers, ("Aiken") a 225-bed acute care facility located in Aiken, South Carolina for approximately $44 million in cash, a 104-bed acute care hospital and a 126-bed acute care hospital. The majority of the real estate assets of the 126-bed facility were being leased from Universal Health Realty Income Trust (the "Trust") pursuant to the terms of an operating lease, which was scheduled to expire in 2000. In exchange for the real estate assets of the 126-bed acute care hospital, the Company exchanged substitute properties consisting of additional real estate assets owned by the Company but related to three acute care facilities owned by the Trust and operated by the Company. As a result of the divestiture of the two acute care hospitals in connection with the acquisition of Aiken Regional Medical Centers, the Company recorded a $2.7 million and a $4.3 million pre-tax charge in the 1995 and 1994 consolidated statements of income, respectively.

During the third quarter, the Company completed the acquisition of Manatee Memorial Hospital, ("Manatee") a 512-bed acute care hospital located in Bradenton, Florida for approximately $139 million in cash and assumption of net liabilities of approximately $4 million.

During the fourth quarter, the Company sold the operations and substantially all the assets of Universal Medical Center, a 202-bed acute care hospital located in Plantation, Florida for cash proceeds of approximately $20 million. The sale resulted in a pre-tax gain of approximately $5 million, which has been included in nonrecurring charges in the 1995 consolidated statement of income.

Assuming the Aiken and Manatee acquisitions had been completed as of January 1, 1995 the unaudited pro forma net revenues and net income would have been approximately $1 billion and $37.9 million, respectively. In addition, the unaudited pro forma basic and diluted earnings per share would have been $1.37 and $1.35, respectively. The excess of cost over fair value of net tangible assets acquired in the 1995 purchase transactions is amortized using the straight-line method over fifteen years.

Operating results from all of the businesses acquired have been included in the financial statements from their respective dates of acquisition. The unaudited pro forma financial information presented above may not be indicative of results that would have been reported if the acquisitions had occurred at the beginning of the earliest period presented and may not be indicative of future operating results.

3) LONG-TERM DEBT

A summary of long-term debt follows:

	DECEMBER 31	
	1997	1996
Long-term debt:		
Notes payable (including obligations under capitalized leases of $8,020,000 in 1997 and $10,542,000 in 1996) with varying maturities through 2001; weighted average interest at 6.6% in 1997 and 6.8% in 1996 (see Note 6 regarding capitalized leases)	$13,574,000	$17,887,000
Mortgages payable, interest at 6.0% to 9.0% with varying maturities through 2000	1,190,000	1,618,000
Revolving credit and demand notes	36,000,000	60,750,000
Commercial paper	75,000,000	50,000,000
Revenue bonds:		
Interest at floating rates ranging from 3.65% to 3.85% at December 31, 1997 with varying maturities through 2015	18,200,000	18,200,000
8.75% Senior Notes due 2005, net of the unamortized discount of $843,000 in 1997 and $955,000 in 1996	134,157,000	134,045,000
	278,121,000	282,500,000
Less-Amounts due within one year	5,655,000	6,866,000
	$272,466,000	$275,634,000

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

The Company entered into a new unsecured non-amortizing revolving credit agreement on July 8, 1997. The agreement, which expires on July 8, 2002, provides for $300 million of borrowing capacity including a $50 million sublimit for letters of credit. During the term of this agreement, the Company has the option to request an increase in the borrowing capacity to $400 million. The agreement provides for interest, at the Company's option at the prime rate, certificate of deposit rate plus 3/8% to 5/8%, Euro-dollar plus 1/4% to 1/2% or a money market rate. A facility fee ranging from 1/8% to 3/8% is required on the total commitment. The margins over the certificate of deposit, the Euro-dollar rates and the facility fee are based upon the Company's leverage ratio. At December 31, 1997 the applicable margins over the certificate of deposit and the Euro-dollar rate were .475%

and .35%, respectively, and the commitment fee was .15 %. There are no compensating balance requirements. At December 31, 1997, the Company had $224 million of unused borrowing capacity available under the revolving credit agreement.

The average amounts outstanding during 1997, 1996 and 1995 under the revolving credit and demand notes and commercial paper program were $100,250,000, $108,125,000 and $46,984,000, respectively, with corresponding effective interest rates of 6.8%, 6.9% and 8.0% including commitment and facility fees. The maximum amounts outstanding at any month-end were, $124,200,000, $220,700,000 and $79,450,000 during 1997, 1996 and 1995, respectively.

A large portion of the Company's accounts receivable are pledged as collateral to secure its $75 million, daily valued commercial paper program. The Company has sufficient patient receivables to support a larger program, and upon the mutual consent of the Company and the participating lending institution, the commitment can be increased to $100 million. A commitment fee of .65% is required on the used portion and .40% on the unused portion of the commitment. This annually renewable program is scheduled to expire on October 30, 1998. Outstanding amounts of commercial paper that can be refinanced through available borrowings under the Company's revolving credit agreement are classified as long-term.

During 1997, the Company entered into two interest rate swap agreements to fix the rate of interest on a notional principal amount of $50 million for a period of three years beginning January 1, 1998. The average fixed rate obtained through these interest rate swaps is 6.125% including the Company's current borrowing spread of .35%. The counterparty of these interest rate swaps has the right to terminate the swaps after the second year. The Company also entered into three forward starting interest rate swaps to hedge a total notional principal amount of $75 million. The starting date on the interest rate swaps is August 2000 and they mature in August 2010. The average fixed rate including the Company's current borrowing spread of .35% is 7.09%. At December 31, 1997 and December 31, 1996 there were no active interest rate swap agreements. As of December 31, 1995 the Company had one interest rate swap agreement outstanding which fixed interest on $10 million notional principal at 9.02%. The effective interest rate on the Company's revolving credit, demand notes and commercial paper program including the interest rate swap expense incurred on now expired interest rate swaps was 6.8%, 6.9% and 8.4% during 1997, 1996 and 1995, respectively. Additional interest expense recorded as a result of the Company's hedging activity was $0, $47,000 and $209,000 in 1997, 1996 and 1995, respectively. The Company is exposed to credit loss in the event of non-performance by the counterparty to the interest rate swap agreements. All of the counterparties are major financial institutions rated AA or better by Moody's Investor Service and the Company does not anticipate non-performance. The cost to terminate the swap obligations at December 31, 1997 was approximately $1.8 million.

Covenants relating to long-term debt require maintenance of a minimum net worth, specified debt to total capital and fixed charge coverage ratios. The Company is in compliance with all required covenants as of December 31, 1997.

The fair value of the Company's long-term debt at December 31, 1997 and 1996 was approximately $285.9 million and $282.5 million, respectively.

Aggregate maturities follow:

1998	$ 5,655,000
1999	4,138,000
2000	4,613,000
2001	170,000
2002	111,014,000
Later	152,531,000
Total	$278,121,000

4) COMMON STOCK

In April 1996 the Company declared a two-for-one stock split in the form of a 100% stock dividend which was paid on May 17, 1996 to shareholders of record as of May 6, 1996. All classes of common stock participated on a pro rata basis. All references to share quantities and share prices shown below have been adjusted to reflect the two-for-one stock split. In June 1996, the Company issued four million shares of its Class B Common Stock at a price of $26 per share. The total net proceeds of approximately $99.1 million generated from this offering were used to partially finance the purchase transactions mentioned in Note 2.

At December 31, 1997, 5,768,692 shares of Class B Common Stock were reserved for issuance upon conversion of shares of Class A, C and D Common Stock outstanding, for issuance upon exercise of options to purchase Class B Common Stock, and for issuance of stock under other incentive plans. Class A, C and D Common Stock are convertible on a share for share basis into Class B Common Stock.

In October 1995, the Financial Accounting Standards Board issued Statement No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). SFAS 123 encourages a fair value based method of accounting for employee stock options and similar equity instruments, which generally would result in the recording of additional compensation expense in an entity's financial statements. The Statement also allows an entity to continue to account for stock-based employee compensation using the intrinsic value for equity instruments using APB Opinion No. 25. The Company has adopted the disclosure-only provisions of SFAS 123. Accordingly, no compensation cost has been recognized for the stock option plans. Had compensation expense for the various stock option plans been determined consistent with the provisions of SFAS 123, the Company's net earnings and earnings per share would have been the pro forma amounts indicated below:

	YEAR ENDED DECEMBER 31		
	1997	1996	1995
Net Income:			
As Reported	$67,276,000	$50,671,000	$35,484,000
Pro Forma	$66,672,000	$50,217,000	$35,382,000
Earnings Per Share:			
As Reported:			
Basic	$ 2.08	$ 1.69	$ 1.28
Diluted	$ 2.03	$ 1.65	$ 1.26
Pro Forma:			
Basic	$ 2.06	$ 1.67	$ 1.28
Diluted	$ 2.01	$ 1.63	$ 1.26

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following range of assumptions used for the twelve option grants that occurred during 1997, 1996 and 1995:

	YEAR ENDED DECEMBER 31		
	1997	1996	1995
Volatility	21% - 23%	26% - 30%	22% - 25%
Interest rate	6% - 7%	6% - 7%	5% - 7%
Expected life (years)	4.2	4.1	4.1
Forfeiture rate	2%	3%	3%

Stock-based compensation costs on a pro forma basis would have reduced pre-tax income by $978,000 ($604,000 after tax) in 1997, $735,000 ($454,000 after tax) in 1996 and $165,000 ($102,000 after tax) in 1995. Because the SFAS 123 method of accounting has not been applied to options granted prior to January 1, 1995, the resulting pro forma disclosures may not be representative of that to be expected in future years.

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

Information with respect to these options is summarized as follows:

OUTSTANDING OPTIONS	NUMBER OF SHARES	AVERAGE OPTION PRICE	RANGE (HIGH-LOW)
Balance, January 1, 1995	1,407,198	$10.06	$12.75--$ 3.63
Granted	621,000	$16.48	$17.00--$13.06
Exercised	(48,926)	$ 8.05	$11.13--$ 3.63
Cancelled	(9,750)	$ 9.24	$11.13--$ 6.94
Balance, January 1, 1996	1,969,522	$12.14	$17.00--$ 5.56
Granted	54,100	$24.40	$25.13--$22.94
Exercised	(467,974)	$ 9.43	$16.56--$ 5.56
Cancelled	(21,600)	$ 9.76	$11.13--$ 6.94
Balance, January 1, 1997	1,534,048	$13.43	$25.13--$ 5.69
Granted	243,250	$41.22	$44.56--$37.88
Exercised	(319,225)	$11.30	$25.13--$ 5.69
Cancelled	(42,500)	$12.54	$25.13--$ 9.81
Balance, December 31, 1997	1,415,573	$18.71	$44.56--$ 7.44

All stock options were granted with an exercise price equal to the fair market value on the date of the grant. Options are exercisable ratably over a four-year period beginning one year after the date of the grant. The options expire five years after the date of the grant. The outstanding stock options at December 31, 1997 have an average remaining contractual life of 2.8 years. At December 31, 1997, options for 761,199 shares were available for grant. At December 31, 1997, options for 575,375 shares of Class B Common Stock with an aggregate purchase price of $7,688,353 (average of $13.36 per share) were exercisable. In connection with the stock option plan, the Company provides the optionee with a loan to cover the tax liability incurred upon exercise of the options. The Company recorded compensation expense of $5.1 million in 1997, $3.9 million in 1996 and $118,000 in 1995 in connection with this loan program.

In addition to the stock option plan the Company has the following stock incentive and purchase plans: (i) a Stock Compensation Plan which expires in November, 2004 under which Class B Common Shares may be granted to key employees, consultants and independent contractors (officers and directors are ineligible); (ii) a Stock Bonus Plan pursuant to the terms of which eligible employees may elect to receive all or part of their annual bonus in shares of restricted stock and whereby the Company will provide a 20% match on the portion of the bonus received in shares of restricted stock; (iii) a Stock Ownership Plan whereby eligible employees may purchase shares of Class B Common Stock directly from the Company at current market value and the Company provides a loan to each eligible employee for 90% of the purchase price for the shares, subject to certain limitations, (loans are partially recourse to the employees); (iv) a Restricted Stock Purchase Plan which allows eligible participants to purchase shares of Class B Common Stock at par value, subject to certain restrictions, and; (v) a Stock Purchase Plan which allows eligible employees to purchase shares of Class B Common Stock at a ten percent discount. The Company has reserved 2 million shares of Class B Common Stock for issuance under these various plans and has issued 735,755 shares pursuant to the terms of these plans as of December 31, 1997, of which 41,196, 74,871 and 93,348 became fully vested during 1997, 1996 and 1995, respectively. Compensation expense of $5.2 million in 1997, $2.8 million in 1996 and $415,000 in 1995 was recognized in connection with these plans.

5) INCOME TAXES

Components of income tax expense are as follows:

	YEAR ENDED DECEMBER 31		
	1997	1996	1995
Currently payable			
Federal	$23,923,000	$13,888,000	$33,659,000
State	2,989,000	1,479,000	4,434,000
	26,912,000	15,367,000	38,093,000
Deferred			
Federal	10,201,000	12,140,000	(17,912,000)
State	1,534,000	1,826,000	(2,676,000)
	11,735,000	13,966,000	(20,588,000)
Total	$38,647,000	$29,333,000	$17,505,000

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

	YEAR ENDED DECEMBER 31	
	1997	1996
Self-insurance reserves	$ 36,079,000	$ 34,479,000
Doubtful accounts and other reserves	(694,000)	2,611,000
State income taxes	(800,000)	(733,000)
Other deferred tax assets	4,654,000	2,681,000
Depreciable and amortizable assets	(28,668,000)	(16,732,000)
Total deferred taxes	$ 10,571,000	$ 22,306,000

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

	YEAR ENDED DECEMBER 31		
	1997	1996	1995
Federal statutory rate	35.0%	35.0%	35.0%
Deductible depreciation, amortization and other	(1.3)	(1.0)	(4.1)
State taxes, net of federal income tax benefit	2.8	2.7	2.1
Effective tax rate	36.5%	36.7%	33.0%

In 1997 and 1996, the Company reviewed its deferred state tax balances and as a result reduced its tax provision by $390,000 in each year. The net deferred tax assets and liabilities are comprised as follows:

YEAR ENDED DECEMBER 31	1997	1996
Current deferred taxes		
Assets	$ 11,799,000	$ 12,474,000
Liabilities	(694,000)	(161,000)
Total deferred taxes-current	11,105,000	12,313,000
Noncurrent deferred taxes		
Assets	28,934,000	27,297,000
Liabilities	(29,468,000)	(17,304,000)
Total deferred taxes-noncurrent	(534,000)	9,993,000
Total deferred taxes	$ 10,571,000	$ 22,306,000

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

6) LEASE COMMITMENTS

Certain of the Company's hospital and medical office facilities and equipment are held under operating or capital leases which expire through 2017 (See Note 8). Certain of these leases also contain provisions allowing the Company to purchase the leased assets during the term or at the expiration of the lease at fair market value.

A summary of property under capital lease follows:

DECEMBER 31	1997	1996
Land, buildings and equipment	$27,712,000	$27,243,000
Less: accumulated amortization	20,592,000	17,371,000
	$7,120,000	$9,872,000

Future minimum rental payments under lease commitments with a term of more than one year as of December 31, 1997, are as follows:

YEAR	CAPITAL LEASES	OPERATING LEASES
1998	$4,399,000	$21,458,000
1999	2,807,000	20,090,000
2000	1,309,000	16,512,000
2001	133,000	14,754,000
2002	--	4,674,000
Later Years	--	18,781,000
Total minimum rental	$8,648,000	$96,269,000
Less: Amount representing interest	628,000	
Present value of minimum rental commitments	8,020,000	
Less: Current portion of capital lease obligations	3,998,000	
Long-term portion of capital lease obligations	$4,022,000	

Capital lease obligations of $3,059,000, $1,902,000 and $4,961,000 in 1997, 1996 and 1995, respectively, were incurred when the Company entered into capital leases for new equipment.

7) COMMITMENTS AND CONTINGENCIES

Effective January 1, 1998, the Company is covered under commercial insurance policies which provide for a self-insured retention limit for professional and general liability claims for most of its subsidiaries up to $1 million per occurrence, with an average annual aggregate for covered subsidiaries of $4 million through 2001. These subsidiaries maintain excess coverage up to $100 million with major insurance carriers. The Company's remaining facilities are fully insured under commercial policies with excess coverage up to $100 million maintained with major insurance carriers. During 1996 and 1997, most of the Company's subsidiaries were self-insured for professional and general liability claims up to $5 million per occurrence, with excess coverage maintained up to $100 million with major insurance carriers. From 1986 to 1995, these subsidiaries were self-insured for professional and general liability claims up to $25 million and $5 million per occurrence, respectively. Since 1993, certain of the Company's subsidiaries, including one of its larger acute care facilities, have purchased general and professional liability occurrence policies with commercial insurers. These policies include coverage up to $25 million per occurrence for general and professional liability risks.

As of December 1997 and 1996 the reserve for professional and general liability claims was $74.2 million and $72.6 million, respectively, of which $12.0 million and $13.0 million in 1997 and 1996, respectively, is included in current liabilities. Self-insurance reserves are based upon actuarially determined estimates. These estimates are based on historical information along with certain assumptions about future events. Changes in assumptions for such things as medical costs as well as changes in actual experience could cause these estimates to change in the near term.

The Company has outstanding letters of credit totaling $53.1 million consisting of: (i) a $40.0 million letter of credit related to the Company's 1997 acquisition of an 80% interest in The George Washington University Hospital (see note 2); (ii) $6.6 million related to the Company's self insurance programs; (iii) $5.8 million as support for a loan guarantee for an unaffiliated party, and; (iv) $700,000 as support for various debt instruments.

The Company has entered into a long-term contract with a third party to provide certain data processing services for its acute care and behavioral health facilities. This contract expires in 2002.

Various suits and claims arising in the ordinary course of business are pending against the Company. In the opinion of management, the outcome of such claims and litigation will not materially affect the Company's consolidated financial position or results of operations.

8) RELATED PARTY TRANSACTIONS

At December 31, 1997, the Company held approximately 8% of the outstanding shares of Universal Health Realty Income Trust (the "Trust"). Certain officers and directors of the Company are also officers and/or Directors of the Trust. The Company accounts for its investment in the Trust using the equity method of accounting. The Company's pre-tax share of income from the Trust was $1,090,000, $1,107,000 and $1,052,000 in 1997, 1996 and 1995, respectively, and is included in net revenues in the accompanying consolidated statements of income. The carrying value of this investment at December 31, 1997 and 1996 was $8,290,000 and $8,391,000, respectively, and is included in other assets in the accompanying consolidated balance sheets. The market value of this investment at December 31, 1997 and 1996 was $15,284,000 and $14,323,000, respectively.

As of December 31, 1997, the Company leased seven hospital facilities from the Trust with initial terms expiring in 1999 through 2003. These leases contain up to six 5-year renewal options. Future minimum lease payments to the Trust are included in Note 6. Total rent expense under these operating leases was $16.3 million in 1997, $16.2 million in 1996 and $16.0 million in 1995. The terms of the lease provide that in the event the Company discontinues operations at the leased facility for more than one year, the Company is obligated to offer a substitute property. If the Trust does not accept the substitute property offered, the Company is obligated to purchase the leased facility back from the Trust at a price equal to the greater of its then fair market value or the

original purchase price paid by the Trust. During 1995, in exchange for the real estate assets of a 126-bed acute care hospital divested by the Company during the year, the Company exchanged with the Trust substitute properties consisting of additional real estate assets owned by the Company but related to three acute care facilities owned by the Trust and operated by the Company (See Note 2). The Company received an advisory fee of $1,100,000 in 1997, $1,044,000 in 1996 and $953,000 in 1995, from the Trust for investment and administrative services provided under a contractual agreement which is included in net revenues in the accompanying consolidated statement of income.

A member of the Company's Board of Directors is a partner in the law firm used by the Company as its principal outside counsel. Another member of the Company's Board of Directors is a managing director of one of the underwriters who performed investment banking services related to the Common Stock and Senior Notes issued during 1996 and 1995, respectively.

9) OTHER NONRECURRING CHARGES

During the fourth quarter of 1996, as a result of divestiture negotiations with a third party regarding one of the Company's ambulatory treatment centers, the Company recorded a $2.9 million charge to write-down the carrying value of the center to its net realizable value. This divestiture, which had no material effect on the 1997 financial statements, was completed during 1997.

Also during the fourth quarter of 1996, the Company recorded a $1.2 million charge to fully reserve the carrying value of a behavioral health center property which is leased to an unaffiliated third party. The lessee is currently in default under the terms of the lease agreement. The Company has concluded that there has been a permanent impairment in the carrying value of this facility based on estimated future cash flows.

During 1995, the Company recorded $11.6 million of nonrecurring charges which consisted of: (i) a $14.2 million pre-tax charge due to impairment of long-lived assets; (ii) a $2.7 million loss on disposal of two acute care facilities which were exchanged along with $44 million of cash for a 225-bed acute care hospital, and; (iii) a $5.3 million pre-tax gain realized on the sale of a 202-bed acute care hospital which was divested during the fourth quarter of 1995 for cash proceeds of $19.5 million.

During 1995, the Company reviewed the impact that changes in third party payment methods, advances in medical technologies, legislative and regulatory initiatives at the federal and state levels along with increased competition from other providers have had on operating margins at the Company's facilities in recent years. These industry conditions have adversely impacted certain of the Company's specialized facilities and certain of the Company's smaller facilities in more competitive markets.

The increased penetration of managed care into the chemical dependency segment of the behavioral health services market, increased competition from acute care providers seeking to expand their service lines and the continuing shift to partial hospitalization and outpatient treatment programs have resulted in significant reduction in admissions and patient days at the Company's two chemical dependency facilities. Changes in CHAMPUS regulations and the increasing influence of managed care have led to shorter lengths of stay for patients at the Company's two residential treatment centers. These factors have led management to conclude that there has been a permanent impairment in the carrying value of these four facilities in the behavioral health services division.

Increased competition and penetration of managed care in the geographic market where the Company ambulatory treatment centers are located have led the management to conclude that there has been a permanent impairment in the carrying value of these facilities. In conjunction with the development of the Company's operating plan and 1996 budget, management assessed the current competitive position of these facilities and estimated future cash flows expected from these facilities. As a result, the Company recorded a $14.2 million pre-tax nonrecurring charge in the 1995 consolidated statement of income related primarily to the write-down of the carrying value of certain intangible and tangible assets at these facilities. In measuring the impairment loss, the Company estimated fair value by discounting expected future cash flows from each facility using the Company's internal hurdle rate.

10) PENSION PLAN

The Company maintains a contributory and non-contributory retirement plan for eligible employees. The Company's contributions to the contributory plan amounted to $3.6 million, $2.0 million, and $1.7 million in 1997, 1996 and 1995, respectively. The non-contributory plan is a defined benefit pension plan which covers employees of one of the Company's subsidiaries. The benefits are based on years of service and the employee's highest compensation for any five years of employment.

The Company's funding policy is to contribute annually at least the minimum amount that should be funded in accordance with the provisions of ERISA. The plan's funded status and amounts recognized in the Company's balance sheet as of December 31, 1997, 1996 and 1995 are as follows:

Actuarial present value of benefit obligations:

	1997	1996	1995
Accumulated benefit obligation, including vested benefits of $37,364,000, $32,264,000 and $29,890,000 in 1997, 1996 and 1995, respectively	$ 40,031,000	$ 34,811,000	$ 32,197,000
Projected benefit obligation for service rendered to date	$(43,573,000)	$(37,709,000)	$(37,211,000)
Plan assets at fair value, primarily listed stock and U.S. obligations	33,974,000	26,220,000	20,008,000
Projected benefit obligation in excess of plan assets	(9,599,000)	(11,489,000)	(17,203,000)
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in assumptions	(2,157,000)	(1,473,000)	2,480,000
Accrued pension cost	$ (11,756,000)	$ (12,962,000)	$ (14,723,000)

Significant actuarial assumptions used in measuring benefit obligations and the expected return on plan assets at December 31, 1997, 1996 and 1995 are as follows:

	1997	1996	1995
Weighted-average discount rate	7.00%	7.50%	7.00%
Weighted-average rate of compensation increase	4.00%	4.00%	4.00%
Expected rate of return on assets	9.00%	9.00%	9.00%

Pension expense related to this plan of $1,191,000, and $1,766,000 was recorded in 1997 and 1996, respectively.

11) QUARTERLY RESULTS (UNAUDITED)

The following tables summarize the Company's quarterly financial data for the two years ended December 31, 1997.

1997	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Net revenues	$340,170,000	$343,826,000	$362,377,000	$396,304,000
Income before income taxes	$ 33,981,000	$ 26,467,000	$ 21,879,000	$ 23,596,000
Net income	$ 21,530,000	$ 16,907,000	$ 13,819,000	$ 15,020,000
Earnings per share--basic	$ 0.67	$ 0.52	$ 0.43	$ 0.46
Earnings per share--diluted	$ 0.65	$ 0.51	$ 0.42	$ 0.45

Net revenues in 1997 include $33.4 million of additional revenues received from special Medicaid reimbursement programs. Of this amount, $8.2 million was recorded in the first quarter, $8.3 million in each of

the second and third quarters and $8.6 million in the fourth quarter. These programs are scheduled to terminate in 1998 and the Company can not predict whether these programs will continue beyond their scheduled termination date. These amounts were recorded in the periods that the Company met all of the requirements to be entitled to these reimbursements.

1996	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Net revenues	$266,523,000	$282,072,000	$299,994,000	$325,569,000
Income before income taxes	$ 24,178,000	$ 19,151,000	$ 17,499,000	$ 19,176,000
Net income	$ 15,501,000	$ 12,216,000	$ 11,285,000	$ 11,669,000
Earnings per share--basic	$ 0.56	$ 0.43	$ 0.35	$ 0.36
Earnings per share--diluted	$ 0.54	$ 0.42	$ 0.34	$ 0.36

Net revenues in 1996 include $17.8 million of additional revenues received from special Medicaid reimbursement programs. Of this amount, $1.8 million was recorded in the first quarter, $3.6 million in the second quarter, $4.7 million in the third quarter and $7.7 million in the fourth quarter. These amounts were recorded in the periods that the Company met all of the requirements to be entitled to these reimbursements. The fourth quarter results include a $1.2 million write-down recorded against the book value of the real property of a behavioral health facility owned by the Company and leased to an unaffiliated third party, which is currently in default under the terms of the lease and a $2.9 million charge related to an ambulatory treatment center which was divested in the second quarter of 1997.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

		ADDITIONS			
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	ACQUISITIONS OF BUSINESSES	WRITE-OFF OF UNCOLLECTIBLE ACCOUNTS	BALANCE AT END OF PERIOD
ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE:					
Year ended December 31, 1997.............	$30,398,000	$108,790,000	$ 7,200,000	$ (99,773,000)	$46,615,000
Year ended December 31, 1996.............	$49,016,000	$ 96,872,000	$10,324,000	$(125,814,000)	$30,398,000
Year ended December 31, 1995.............	$34,957,000	$ 76,905,000	$ 4,797,000	$ (67,643,000)	$49,016,000

INDEX TO EXHIBITS

10.4 Agreement, effective January 1, 1998, to renew Advisory Agreement, dated as of December 24, 1986, between Universal Health Realty Income Trust and UHS of Delaware, Inc.

10.29 Stock Purchase Agreement dated as of December 15, 1997, by and among the Stockholders of Hospital San Pablo, Inc. and Universal Health Services, Inc., and UHS of Puerto Rico, Inc.

10.30 Valley/Desert Contribution Agreement dated January 30, 1998, by and among Valley Hospital Medical Center, Inc. and NC-DSH, Inc.

10.31 Summerlin Contribution Agreement dated January 30, 1998, by and among Summerlin Hospital Medical Center, L.P. and NC-DSH, Inc.

10.32 1992 Stock Option Plan, As Amended.

22. Subsidiaries of Registrant.

24. Consent of Independent Public Accountants.

27. Financial Data Schedule.

[LETTERHEAD OF UNIVERSAL HEALTH]

January 7, 1998

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

Dear Alan:

The Board of Trustees of Universal Health Realty Income Trust at their December 2, 1997, meeting authorized the renewal of the current Advisory Agreement between the Trust and UHS of Delaware, Inc. ("Agreement") upon the same terms and conditions.

This letter constitutes the Trust's offer to renew the Agreement until December 31, 1998, upon the same terms and conditions. Please acknowledge UHS of Delaware, Inc.'s acceptance of this offer by signing in the space provided below and returning one copy of this letter to me.

Sincerely yours,

/s/ Kirk E. Gorman

Kirk E. Gorman
President and Secretary

cc: Warren J. Nimetz, Esquire
Charles Boyle

AGREED TO AND ACCEPTED:

UHS of Delaware, Inc.

By: /s/ Alan B. Miller

Alan B. Miller, President

EXHIBIT 10.29

==

STOCK PURCHASE AGREEMENT

by and among

the Stockholders of Hospital San Pablo, Inc.,

on the one hand,

and

UNIVERSAL HEALTH SERVICES, INC.

and

UHS OF PUERTO RICO, INC.,

on the other hand

Dated as of December 15, 1997

==

Table of Contents

			Page
1.	Purchase and Sale of the Shares		1
	(a)	Purchase and Sale of the Shares	1
	(b)	Purchase Price	1
	(c)	Estimated Purchase Price	2
2.	Closing		2
	(a)	Closing	2
	(b)	Appointment of Representatives	3
	(c)	Escrow	5
	(d)	Post-Closing Adjustment to Estimated Purchase Price	6
3.	Representations and Warranties of the Sellers		8
	(a)	Authority	8
	(b)	Ownership of Capital Stock of the Company; the Shares	8
	(c)	Organization and Standing	9
	(d)	No Conflicts; Consents	9
	(e)	Capital Stock of the Company	9
	(f)	Equity Interests	10
	(g)	Financial Statements; Undisclosed Liabilities	10
	(h)	Absence of Changes or Events	10
	(i)	Taxes	11
	(j)	Assets; Title; Absence of Liens and Encumbrances	12
	(k)	Contracts	14
	(l)	Litigation	15
	(m)	Insurance	15
	(n)	Employee and Labor Matters	16
	(o)	Employee Plans	16
	(p)	Company Permits; Compliance with Legal Requirements	18
	(q)	Intellectual Property	20
	(r)	Environmental Matters	20
	(s)	Brokers, Finders, etc	21
	(t)	Books and Records	21
	(u)	Special Funds	22
	(v)	Medical Staff Matters	22
	(w)	Puerto Rico Residence	22

4. Representations and Warranties of the Parent and the Buyer.......... 22
(a) Organization and Standing.................................... 22
(b) Authority.. 22
(c) No Conflicts; Consents....................................... 23
(d) Financing.. 23
(e) Securities Act... 23
(f) Brokers, Finders, etc.. 24

5. Covenants of the Sellers... 24
(a) Access... 24
(b) Ordinary Conduct... 24
(c) Other Transactions... 25
(d) Non-Competition.. 25

6. Covenants of the Parent and the Buyer.............................. 26
(a) Confidentiality.. 26
(b) Employees and Employee Benefit Plans......................... 26
(c) WARN Act... 26
(d) Indigent Care and Community Commitments...................... 27
(e) Advisory Board... 27
(f) Capital Commitments.. 27
(g) Names of Hospitals... 27
(h) Fajardo.. 27
(i) Long-Term Debt... 28
(j) Parent Guarantee of the Buyer's Obligations.................. 28

7. Mutual Covenants... 28
(a) Consummation of the Transactions............................. 28
(b) Publicity.. 29
(c) Antitrust Notification....................................... 29
(d) Hospital Records... 29
(e) Related Agreements... 31
(f) Fajardo.. 31
(g) Additional Insurance... 31
(h) Waiver of Article Eight...................................... 31
(i) Permitted Escrow... 31
(j) Further Assurances... 32

8. Conditions to Closing.. 32
(a) Each Party's Obligations................................... 32
(b) The Sellers' Obligations................................... 33
(c) The Buyer's Obligations.................................... 34
(d) Frustration of Closing Conditions.......................... 35

9. Indemnification.. 35
(a) Tax Indemnification.. 35
(b) General Indemnification by the Sellers..................... 36
(c) General Indemnification by the Parent and the Buyer........ 36
(d) Losses Net of Insurance, etc............................... 37
(e) Limitations on Indemnification Rights...................... 37
(f) Procedures Relating to Indemnification..................... 38
(g) Proportional Obligations of the Sellers.................... 41

10. Tax Matters... 41

11. Termination... 43

12. Survival of Representations and Warranties.................... 44

13. Expenses.. 44

14. Miscellaneous... 45
(a) No Third-Party Beneficiaries............................... 45
(b) Amendment or Waiver.. 45
(c) Headings... 45
(d) Counterparts... 45
(e) Certain Additional Definitions............................. 45
(f) Assignment; Binding Effect................................. 45
(g) Notices.. 46
(h) Entire Agreement... 47
(i) Severability... 47
(j) Interpretation... 47
(k) Consent to Jurisdiction.................................... 47
(l) Governing Law.. 48

Exhibit A Form of Development Agreement

Schedule 1(a) Selling Stockholders
Schedule 1(b) Capital Expenditures
Schedule 2(c) Terms of Escrow Agreement
Schedule 3(a) Authority
Schedule 3(b) Ownership of Capital Stock of the Company; the Shares
Schedule 3(c) Subsidiaries
Schedule 3(d) Consents
Schedule 3(e) Shares Subject to Options or Rights
Schedule 3(f) Equity Interests
Schedule 3(g) Financial Statements; Undisclosed Liabilities
Schedule 3(h) Absence of Change or Events
Schedule 3(i) Taxes
Schedule 3(j) Assets; Title; Absence of Liens and Encumbrances
Schedule 3(k) Material Contracts
Schedule 3(l) Litigation
Schedule 3(m) Insurance
Schedule 3(n) Employee and Labor Matters
Schedule 3(o) Benefit Plans
Schedule 3(p) Company Permits; Compliance with Legal Requirements
Schedule 3(q) Intellectual Property
Schedule 3(r) Environmental Matters
Schedule 3(v) Medical Staff Matters
Schedule 3(w) Puerto Rico Residence
Schedule 5(b) Ordinary Conduct
Schedule 6(f) Capital Commitments
Schedule 7(e) Terms of Real Estate Purchase Agreement
Schedule 8(a) Excluded Assets

Table of Definitions

Accountants.. 2(d)(ii)
Acquisition Amount... 1(b)
Additional Insurance... 7(g)
Adjusted Working Capital... 2(d)(iii)
Advisory Board... 6(e)
Agreement.. 14(e)
Affected Persons... 6(a)(ii)
Audit.. 3(i)
Audited 1997 Financial Statements.................................. 8(c)(vi)
business day... 1(c)
Business Records... 7(d)(i)
Buyer.. Preamble
Buyer's Accountants.. 2(d)(i)
CapEx Amount... 1(b)
Closing Balance Sheet.. 1(b)
Citibank Loan.. 6(i)
Closing.. 2(a)
Closing Date... 2(a)
Code... 3(i)
Common Stock... Preamble
Company.. Preamble
Company Permits.. 3(p)(i)
Confidentiality Agreement.. 6(a)
Destruction Notice... 7(d)(iii)
Document Retention Period.. 7(d)(iii)
DOJ.. 7(c)
Employee Plans... 3(o)
Environmental Assessments.. 3(r)(ii)
Environmental Laws... 3(r)(i)
Escrow Agreement... 2(c)
Estimated Acquisition Amount....................................... 1(c)
Estimated CapEx Amount... 1(c)
Estimated Loan-Term Debt Amount.................................... 1(c)
Estimated Purchase Price... 1(c)
Escrow Agent... 2(c)
Escrow Amount.. 2(c)
ERISA.. 3(o)
Fajardo.. 1(b)

Fajardo Acquisition... 1(b)
Final Determination... 2(d)(ii)
Financial Statements.. 3(g)
FTC... 7(c)
GAAP.. 1(c)
Governmental Entity... 3(d)
Guarantors.. 8(b)(ii)
Hazardous Substances.. 3(r)(i)
Hospitals.. Preamble
Hospital San Francisco..................................... Preamble
Hospital San Pablo... Preamble
Hospital Records.. 7(d)(i)
HSR Act... 3(d)
indemnified party... 9(f)(ii)
Intellectual Property... 3(q)
Interim Balance Sheet... 1(c)
JCAHO... 3(p)(v)
June Balance Sheet.. 1(c)
Liens... 3(b)(i)
Long-Term Debt Amount... 1(b)
Loss.. 9(b)
Maintenance Contracts... 3(j)(viii)
Material Adverse Effect... 3(d)
Material Agreements... 3(k)
Non-Assumed Long-Term Debt.. 6(i)
Parent... Preamble
Patient Records... 7(d)(i)
Permitted Encumbrances.. 3(j)(ii)
Permitted Liens... 3(f)
Pre-Closing Tax Period.. 3(i)
Purchase Price.. 1(b)
PWI... 3(s)
Real Estate Purchase Agreement.................................... 8(a)(v)
Real Property... 3(j)
Representatives... 2(b)
San Francisco.. Preamble
Secretary... 3(i)
Securities Act.. 4(e)
Sellers.. Preamble
Sellers' Accountants.. 2(d)(i)
Seller's Pro Rata Portion... 2(a)

Shares.. Preamble
Special Taxes... 9(a)
Spouses... 2(b)(1)
Straddle Period... 9(a)(A)
Subsidiary.. 3(c)
Tax or Taxes.. 3(i)
Tax Loss.. 9(a)
Tax Claim... 9(f)(iv)
Tax Return.. 3(i)
Third Party Claim... 9(f)(ii)
Title Policies.. 8(c)(v)
to the knowledge of... 14(e)
WARN Act.. 6(c)
Zomil... 8(a)(v)

STOCK PURCHASE AGREEMENT

This STOCK PURCHASE AGREEMENT, dated as of December 15, 1997, by and among the individual stockholders set forth on Schedule 1(a) attached hereto (each a "Seller," and collectively the "Sellers"), on the one hand, and Universal Health Services, Inc., a Delaware corporation (the "Parent"), and UHS of Puerto Rico, Inc., a Delaware corporation and an indirect wholly-owned subsidiary of the Parent (the "Buyer"), on the other hand.

A. The Sellers own all of the issued and outstanding shares (the "Shares") of the common stock, par value $1.00 per share ("Common Stock"), of Hospital San Pablo, Inc., a Puerto Rico corporation (the "Company"), which (i) operates that certain acute-care general hospital commonly known as Hospital San Pablo ("Hospital San Pablo") and (ii) owns all of the issued and outstanding shares of the common stock, par value $1.00 per share, of Hospital San Francisco, Inc., a Puerto Rico corporation ("San Francisco"), which operates that certain acute-care general hospital commonly known as Hospital San Francisco ("Hospital San Francisco" and together with Hospital San Pablo, the "Hospitals").

B. The Sellers desire to sell to the Buyer, and the Buyer desires to purchase from the Sellers all of the Shares for the consideration and on the other terms set forth in this Agreement.

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements set forth below, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. <u>Purchase and Sale of the Shares.</u> (a) <u>Purchase and Sale of the Shares.</u> On the terms and subject to the conditions of this Agreement, the Sellers shall sell, assign, transfer, convey and deliver or cause to be sold, assigned, transferred, conveyed and delivered to the Buyer, and the Buyer shall purchase from the Sellers, all of the Sellers' rights, title and interest in and to the Shares for the Purchase Price (as defined below), payable as set forth below.

(b) <u>Purchase Price.</u> The aggregate purchase price (the "Purchase Price") for the Shares will be an amount (subject to adjustment as provided in Section 2(d) below) equal to the difference between: (i) an amount equal to the total of (x) $165 million, plus (y) the CapEx Amount (as defined below), <u>plus</u> (z) the Acquisition Amount (as defined below); <u>less</u> (ii) the Long-Term Debt Amount (as defined below). The Long-Term Debt Amount shall not be paid to the Sellers at the Closing but shall be paid or assumed as provided in Section 6(i) below. As used herein (1) "CapEx Amount" shall mean the total amount expended by the Company and its Subsidiaries (as defined in Section 3(c) below) for the capital expenditures set forth on Schedule 1(b) hereto from June 30, 1997 through the Closing Date (as defined in Section 2(a) below), but

in no event shall such amount exceed $9.7 million; (2) "Acquisition Amount" shall mean the amount paid by or on behalf of the Company and its Subsidiaries, if any, in connection with the proposed acquisition (whether or not such acquisition is consummated) by the Company or one of its Subsidiaries (the "Fajardo Acquisition") of the Fajardo Sub-Regional Hospital ("Fajardo"), including without limitation the purchase price therefor and any documented and reasonable third-party expenses (including any down payment, deposit or other amount which may be subject to forfeiture) paid by or incurred by or on behalf of the Company or its Subsidiaries on or before the Closing Date in connection with evaluating such acquisition, preparing and negotiating the offer and negotiating, documenting and executing the transaction; and (3) "Long-Term Debt Amount" shall mean an amount equal to the sum of the following line items reflected on the consolidated balance sheet of the Company and its Subsidiaries at the Closing Date prepared substantially in the form of the June Balance Sheet and the Interim Balance Sheet (each as defined in Section 1(c) below) (the "Closing Balance Sheet"): (A) the amount of the "Long-Term Debt" line item (adjusted, if necessary and without duplication, to include any prepayment fees and expenses payable under the terms thereof through the Closing Date), plus (B) the amount of the "Current Portion of Long-Term Debt" line item, if any, plus (C) the amount of the "Obligation under Capital Lease" line item, plus (D) the amount of the "Current Portion of Capital Lease" line item.

(c) Estimated Purchase Price. The Purchase Price (and the components thereof) shall be estimated in good faith (based on the most recent interim financial statements available) by the Sellers as of the second business day (as defined below) prior to the Closing Date (the "Estimated Purchase Price"), which shall be subject to final adjustment as set forth in Section 2(d) below. Prior to such date, the Representatives (as defined in Section 2(b) below) shall cause the Company to prepare and deliver to the Parent and the Buyer the following: (i) an unaudited consolidated balance sheet of the Company and its Subsidiaries as of the most recent available date (the "Interim Balance Sheet") prepared in accordance with generally accepted accounting principles ("GAAP") on a basis consistent with the consolidated balance sheet for the Company and its Subsidiaries as of June 30, 1997 (the "June Balance Sheet"); and (ii) computations of the Estimated Purchase Price, including estimates of the CapEx Amount, the Acquisition Amount and the Long-Term Debt Amount (respectively, the "Estimated CapEx Amount," the "Estimated Acquisition Amount" and the "Estimated Long-Term Debt Amount"). As used herein "business day" shall mean a day of the year on which banks are not required or authorized to close in New York City or San Juan, Puerto Rico.

2. Closing. (a) Closing. The closing (the "Closing") of the purchase and sale of the Shares shall be held at the offices of Brown & Wood llp, One World Trade Center, New York, New York 10048 at 10:00 a.m. on January 30, 1998 or on such other date as the Representatives, the Parent and the Buyer shall all agree upon, or, if the conditions to the Closing set forth in Section 8 shall not have been satisfied or waived by January 30, 1998, as soon as practicable after such conditions shall have been satisfied or waived. The date on which the

Closing shall occur is hereinafter referred to as the "Closing Date." At the Closing: (i) the Parent and the Buyer shall deliver or cause to be delivered to each Seller (x) by wire transfer of immediately available funds to such account or accounts as are specified by the Sellers, each Seller's pro rata portion (based upon the percentage of outstanding Shares held of record by such Seller as set forth on Schedule 1(a) hereto (such percentage, the "Seller's Pro Rata Portion")) of the Estimated Purchase Price and (y) such other items as are provided for in Section 8 hereof; and (ii) each Seller shall deliver or cause to be delivered to the Buyer (x) certificates representing all Shares owned of record by such Seller, duly endorsed in blank or accompanied by stock powers duly endorsed in blank in proper form for transfer and (y) such other items as are provided for in Section 8 hereof.

(b) Appointment of Representatives. (i) For the period from the date hereof through and including the Closing Date (including the Closing), each of the Sellers and their respective spouses identified on the signature pages to this Agreement (the "Spouses") hereby appoint and authorize Juan L. Cruz Rosario and Milton Cruz (the "Representatives") and each of them as their agents to deal with the Company, the Parent and the Buyer regarding all matters arising under this Agreement (except to the extent that this Agreement expressly provides for any action to be taken or other matters to be dealt with by the Sellers themselves) and the Escrow Agreement (as such term is defined below), and with respect thereto, all of the Sellers and such Spouses hereby constitute and appoint each of the Representatives as their true and lawful attorneys and agents to sign the names of such Sellers and such Spouses on or with respect to any and all agreements, certifications and instruments (including but not limited to settlement agreements and consents) in connection with matters arising under or in connection with this Agreement or the Escrow Agreement, modifications or amendments of the terms of this Agreement or the Escrow Agreement, and any waiver of any provisions of, and resolution of any disputes or uncertainties arising under, this Agreement or the Escrow Agreement. Each of the Sellers and the Spouses agrees that the Representatives, and each of them, shall represent the Sellers and the Spouses for all purposes of this Agreement and the Escrow Agreement, including the receipt of notices and the exercise of any rights with respect to the Sellers' obligations hereunder and thereunder and the modification or amendment of the terms of this Agreement and the Escrow Agreement and the waiver of any provisions hereof and thereof, and resolution of disputes or uncertainties arising hereunder and thereunder (except to the extent that this Agreement expressly provides for any action to be taken or other matters to be dealt with by the Sellers themselves).

(ii) For the period beginning one day after the Closing Date and ending upon the later of (x) the expiration of the last representation and warranty pursuant to Section 12 of this Agreement, or (y) the date upon the last of any remaining claims for indemnification by or against the Sellers under Section 9 of this Agreement are settled and satisfied, the Sellers hereby appoint the Representatives, and each of them, as their agents with the power and authority to negotiate and settle with the Parent and the Buyer any adjustments to the Purchase Price provided

for in Sections 1 and 2(d) hereof and any and all claims made by or against the Sellers under Section 9 hereof.

(iii) In all cases under this Section 2(b), the Representatives shall discharge their duties in good faith and in a manner the Representatives reasonably believe to be in the best interests of the Sellers, but by virtue of acting as Representatives shall not be deemed a fiduciary of, or to have an obligation of trust in respect of, any of the Sellers. Said power of attorney shall not be affected by the subsequent incapacity of any Seller. In the event of the death or incapacity of one of the Representatives, the other Representative shall become the Representative. In the event of the death or incapacity of both of the Representatives, the Sellers shall promptly appoint a successor Representative by majority vote of the Sellers determined on the basis of the Sellers' Pro Rata Portion.

(iv) Each of the Sellers and the Spouses hereby ratifies and confirms all that said attorneys or agents shall do or cause to be done by virtue of this Section 2(b) hereof. The Sellers and the Spouses also agree that the Sellers shall be bound by all decisions of the Representatives pursuant to the authority granted pursuant to this Section 2(b), and that such authority granted pursuant to this Section 2(b) may not be revoked during the term of this Agreement or the Escrow Agreement. Anything in this Agreement to the contrary notwithstanding, and in all cases under this Section 2(b), the Sellers and the Spouses (other than the Representatives and their respective Spouses) jointly and severally agree that (A) the Representatives, acting in their capacity as such, shall have no liability or obligation (in contract, tort or otherwise) to any Sellers or Spouses or the Company, the Parent or the Buyer for any action or failure to act on the part of the Representatives except to the extent that the same is found in a final judgment by a court of competent jurisdiction or in a final settlement signed by the Representatives to have resulted from their bad faith, gross negligence or willful misconduct and any action or failure to act by the Representatives taken in accordance with this Section 2(b) shall not be deemed to have so resulted in any such liability or obligation; (B) the Representatives shall be protected in acting upon any written notice, instruction, waiver, consent, receipt or other paper or document which the Representatives in good faith believe to be genuine; (C) the Representatives have undertaken to perform only such duties as are specifically set forth in this Agreement or the Escrow Agreement, and no implied duties, obligations, covenants or agreements shall be read into this Agreement or the Escrow Agreement against the Representatives; (D) no provision of this Agreement or the Escrow Agreement shall require the Representatives to expend or risk their own iability in the performance of any of their duties hereunder or thereunder or in the exercise of any of their rights or powers hereunder or thereunder, and the Sellers and the Spouses (other than the Representatives and their respective Spouses) agree, jointly and severally, to indemnify the Representatives against and hold the Representatives harmless for any liability whatsoever in connection therewith (including without limitation expenses incurred by the Representatives in order to enforce their rights under this Section 2(b)) as incurred; (E) the Representatives may in their absolute discretion seek

instructions from the Sellers on any matter relating to this Agreement or the Escrow Agreement and may refuse to take an action requested to be taken pursuant to the terms of this Agreement or the Escrow Agreement pending receipt of instructions from the Sellers, and if such instructions are received from a majority of the Sellers (determined on the basis of the Sellers' Pro Rata Portion) other than the Representatives and the Representatives correctly implement such instructions, the Sellers (other than the Representatives and their respective Spouses) agree, jointly and severally, to indemnify the Representatives against and hold the Representatives harmless from any liability whatsoever (including, but not limited to, expenses incurred by the Representatives in order to enforce their rights under this Section 2(b)), as incurred, arising out of the Representatives implementing such instructions; and (F) the Representatives shall not be required to attempt to enforce any provision of this Agreement or the Escrow Agreement on behalf of the Sellers if the Representatives, in their sole discretion and in good faith, decide that such provision or enforcement thereof is not material.

(v) If any indemnification provided for in this Section 2(b) is unavailable or insufficient to hold harmless the Representatives, then each Seller (other than the Representatives) shall contribute to the amount paid or payable by the Representatives as a result of the losses, claims, damages or liabilities referred to above in such proportion as is appropriate to reflect the relative benefits received by the Sellers (other than the Representatives) as among themselves, as well as any other relevant equitable considerations.

(vi) Each of the Sellers and their respective Spouses agree that the provisions of this Section 2(b) shall be binding upon, and inure to the benefit of, each of the Sellers, their respective Spouses and their respective permitted assigns and successors.

(vii) Each of the Sellers agrees that the provisions of this Section 2(b) shall survive the Closing and shall not terminate.

(c) Escrow. For the purpose of satisfying the indemnification obligations of the Sellers contained in Section 9, $45,000,000 (the "Escrow Amount") of the Estimated Purchase Price shall be delivered by the Parent and the Buyer on the Closing Date, by wire transfer of immediately available funds to a bank located in Puerto Rico to be reasonably agreed upon by the Parent and the Representatives to serve as escrow agent (the "Escrow Agent") under an escrow agreement to be entered into on the Closing Date by the Sellers, the Buyer and the Escrow Agent on the terms set forth on Schedule 2(c) hereto (the "Escrow Agreement"). Each Seller's Pro Rata Portion of the Escrow Amount shall be deducted from the portion of the Estimated Purchase Price payable by the Parent and the Buyer to such Seller at the Closing pursuant to Section 2(a) above.

(d) Post-Closing Adjustment to Estimated Purchase Price. (i) As promptly as practicable following the Closing Date, the Representatives shall prepare, and within 90 days following the Closing Date deliver to the Parent and the Buyer, the following (as certified by Pannell Kerr Forster Worldwide (the "Sellers' Accountants")): (A) the Closing Balance Sheet; (B) a computation of the CapEx Amount; (C) a computation of the Acquisition Amount; (D) a computation of the Long-Term Debt Amount; (E) a computation of the Adjusted Working Capital (as defined below) as of the Closing Date; and (F) a computation of the amounts, if any, payable under Section 2(d)(iii). The Closing Balance Sheet shall be (x) audited by, and accompanied by the opinion thereon of, the Sellers' Accountants and (y) prepared in accordance with GAAP on a basis consistent with the June Balance Sheet. The fees and expenses of preparing the Closing Balance Sheet shall be shared equally by the Parent and the Buyer, on the one hand, and the Sellers, on the other hand. The Parent and the Buyer shall make available to the Sellers and the Sellers' Accountants such employees and records of the Company and its Subsidiaries as may be necessary for the preparation of the Closing Balance Sheet. Arthur Andersen LLP, or such other firm of independent accountants of similar standing as the Buyer may select (the "Buyer's Accountants"), on behalf of the Buyer shall be entitled at the Buyer's expense, during normal working hours, to review the workpapers and other documents and information used in the audit by the Seller's Accountants of the Closing Balance Sheet and to conduct its own audit if it so chooses.

(ii) If within 30 days following delivery of the Closing Balance Sheet the Parent and the Buyer have not given the Representatives written notice of their reasonable good faith objection to the Closing Balance Sheet based on the failure of the Closing Balance Sheet to be prepared in accordance with GAAP and consistent with the June Balance Sheet (such notice to include a statement in reasonable detail of the basis of the Buyer's specific objection), then the Closing Balance Sheet shall be final and binding upon each of the Sellers, the Parent and the Buyer and shall be used in computing the adjustment provided for in Section 2(d)(iii). If the Parent and the Buyer give such notice, and such objection is not resolved in good faith by the Representatives, on the one hand, and the Parent and the Buyer, on the other hand, within 30 days from the date of the receipt of such notice, then the issues in dispute shall be promptly submitted for resolution to the Puerto Rico office of Ernst & Young LLP, independent certified public accountants, or its successor firm, or such other "big six" independent certified public accounting firm not previously retained by the Representatives, the Parent or the Buyer or any of their respective affiliates as the Representatives, on the one hand, and the Parent and the Buyer, on the other hand, may reasonably agree upon in writing (the "Accountants"). The Accountants shall act as experts and not as arbitrators. If issues in dispute are submitted to the Accountants for resolution, each party shall furnish to the Accountants such workpapers and other documents and information relating to the disputed issues as the Accountants may request and are available to that party (or its independent public accountants), and shall be afforded the opportunity to present to the Accountants any material relating to the Accountants' determination and to discuss the determination with the Accountants. The determination by the Accountants shall be binding

and cermination"). The fees and expenses of the Accountants in connection with the Final Determination shall be shared equally by the Parent and the Buyer, on the one hand, and the Sellers, on the other hand. The Representatives, the Parent and the Buyer shall use reasonable efforts to cause the Final Determination of the Accountants to be rendered within 30 days of its appointment.

(iii) The Purchase Price shall be adjusted as follows: (x) if the amount of Adjusted Working Capital shall (A) be less than $10,128,781 (the amount of Adjusted Working Capital reflected on the June Balance Sheet), then the Sellers shall be obligated to pay to the Buyer an amount equal to such shortfall, or (B) exceed $10,128,781 then the Parent and the Buyer shall be obligated to pay to the Sellers in the aggregate an amount equal to such excess; (y) if the CapEx Amount and/or the Acquisition Amount shall (A) be more than the Estimated CapEx Amount or the Estimated Acquisition Amount, respectively, then the Parent and the Buyer shall be obligated to pay to the Sellers in the aggregate an amount equal to such excess or (B) be less than the Estimated CapEx Amount and/or the Estimated Acquisition Amount, respectively, then the Sellers shall be obligated to pay to the Buyer an amount equal to such shortfall; and (z) if the Long-Term Debt Amount shall (A) be less than the Estimated Long Term Debt Amount, the Parent and the Buyer shall be obligated to pay to the Sellers an amount equal to such shortfall, or (B) exceed the Estimated Long-Term Debt Amount, then the Sellers shall be obligated to pay the Parent and the Buyer in the aggregate an amount equal to such excess. If the net adjustment to the Purchase Price (the sum of clauses (x), (y) and (z) in the foregoing sentence) results in an obligation of the Sellers to make a payment to the Buyer, the Sellers shall be severally obligated, on the same basis as provided in Section 9(g) hereof, to promptly pay to the Buyer such amount, which payment shall be made from the Escrow Amount. Alternatively, if such net adjustment results in an obligation of the Parent and the Buyer to make a payment to the Sellers, then the Buyer shall, and the Parent shall cause the Buyer to, promptly pay to the Sellers an aggregate amount equal to such difference, which payment shall be made by wire transfer in immediately available funds to such bank account or accounts as the intended recipients shall specify and otherwise in the manner and allocation of the Seller's Pro Rata Portion as set forth in Section 2(a). All payments required to be made under this Section 2(d)(iii) shall be made together with interest at an annual rate of 7% beginning on the Closing Date and ending on the date of payment. Any such payment shall be made within two business days after the date that the Representatives, the Parent and the Buyer agree to such amount or that the Accountants announce the Final Determination to the Representatives, the Parent and the Buyer, as the case may be. For purposes hereof, "Adjusted Working Capital" shall mean an amount equal to (A) the sum of the following "Total Current Assets" line items as reflected on the Closing Balance Sheet (adjusted, without duplication, to include the amount of the "Restricted Cash and Investments" line item reflected on the June Balance Sheet that will become unrestricted as a result of the payment at Closing of the Non-Assumed Long-Term Debt (as defined in Section 6(i) below): "Cash," "Net Accounts Receivable," "Other Accounts Receivable," "Supplies" and "Prepaids;" less (B) the sum of the following "Total Current Liabilities" line items as
- - - ----
reflected on

the Closing Balance Sheet (specifically excluding the "Current Portion of Long-Term Debt" and the "Current Portion of Capital Lease" line items): "Notes Payable," "Accounts Payable," "Accrued Expenses" and "Dividends Payable."

3. Representations and Warranties of the Sellers. Subject to the provisions of Section 14(h) of this Agreement (i) as to Sections 3(a), 3(b) and 3(w) below, each Seller, individually, hereby represents and warrants to the Parent and the Buyer specifically with respect to such Seller, and (ii) as to Sections 3(c) through 3(v) below, the Sellers, severally, hereby represent and warrant to the Parent and the Buyer, as follows:

(a) Authority. Each Seller and Spouse represents and warrants that (i) except as set forth on Schedule 3(a) hereto, the execution and delivery of the Agreement by such Seller and such Spouse and the Escrow Agreement by such Seller, and the performance by such Seller or Spouse of his or her respective obligations to sell the Shares hereunder, and thereunder, have been duly authorized by all necessary action on the part of such Seller or Spouse, (ii) this Agreement has been duly executed and delivered by such Seller or Spouse and, assuming the due execution and delivery hereof by the Parent and the Buyer, constitutes a valid and binding obligation of such Seller or Spouse, enforceable against such Seller or Spouse in accordance with its terms (subject, as to the enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium (whether general or specific) and similar laws relating to creditors' rights generally, and general principles of equity (regardless of whether such enforcement is sought in a proceeding in equity or at law)), and (iii) the Escrow Agreement, when executed and delivered by such Seller and, assuming the due execution and delivery thereof by the Buyer and the Escrow Agent, will constitute a valid and binding obligation of such Seller, enforceable against such Seller in accordance with its terms (subject, as to enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium (whether general or specific) and similar laws relating to creditors' rights and general principles of equity (regardless of whether such enforcement is sought in a proceeding in equity or at law)).

(b) Ownership of Capital Stock of the Company; the Shares. (i) Each Seller represents and warrants that (x) he or she is the record and beneficial owner of the Shares next to his or her name as set forth on Schedule 1(a) hereto and (y) that he or she has good and valid title to his or her respective Shares free of all claims, liens or encumbrances ("Liens"), except as set forth on Schedule 3(b) hereto.

(ii) Each Seller represents and warrants that, assuming the Parent and the Buyer have the requisite power and authority to own the Shares, upon delivery to the Buyer at the Closing of certificates representing such Seller's Shares, duly endorsed by such Seller for transfer to the Buyer, and upon such Seller's receipt of the Purchase Price, the Buyer will acquire title to such Seller's Shares, free and clear of all Liens, other than those arising from acts of the Buyer or its affiliates.

(c) Organization and Standing. The Company and each of its Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Puerto Rico. The Company and each of its Subsidiaries have all requisite corporate power and authority to carry on their respective businesses as presently conducted and to enable them to own, lease and operate their respective properties and assets they now own, lease and operate. Neither the Company nor any of its Subsidiaries is required to be qualified or licensed to do business in any jurisdiction other than Puerto Rico. The term "Subsidiary" means each person of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by the Company. As of the Closing, the only direct or indirect subsidiaries of the Company will be those set forth on Schedule 3(c) hereto.

(d) No Conflicts; Consents. Except as set forth on Schedule 3(d) hereto, the consummation of the sale of the Shares contemplated hereby and the Sellers' indemnification obligation provided herein will not conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to the loss of a material benefit under any provision of (i) the respective certificates of incorporation or by-laws of the Company or any of its Subsidiaries, (ii) any note, bond, mortgage, indenture, deed of trust, license, lease, contract, commitment, agreement or arrangement to which the Company or any of its Subsidiaries is a party or by which any of them or any of their respective properties or assets is bound or (iii) any judgment, order or decree, or statute, law, ordinance, rule or regulation, applicable to the Company or any of its Subsidiaries or any of their respective properties or assets, in each case except for any such conflict, violation, default or right which would not have a material adverse effect on the business, assets, financial condition, or results of operations of the Company and its Subsidiaries taken as a whole (a "Material Adverse Effect"). No consent, approval, license, permit, order or authorization of, or registration, declaration or filing with, any Federal, state, commonwealth, local or foreign government or any court of competent jurisdiction, administrative agency or commission or other governmental authority or instrumentality, domestic or foreign, or other regulatory or self-regulatory body or association (a "Governmental Entity") is required to be obtained or made by the Sellers or the Company or any of its Subsidiaries in connection with the consummation of the sale of the Shares contemplated hereby and the Sellers' indemnification obligation provided herein other than (w) compliance with and filings under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (t as set forth on Schedule 3(d), (y) as become applicable solely as a result of the specific regulatory status of the Parent or the Buyer and their affiliates and (z) for those the failure of which to make or obtain would not have a Material Adverse Effect.

(e) Capital Stock of the Company. The authorized capital stock of the Company consists of 3,000,000 shares of Common Stock, par value $1.00 per share, of which 1,228,259 shares, constituting the Shares, are duly authorized and validly issued and outstanding,

fully paid and nonassessable. Except for the Shares, there are no shares of capital stock or other equity securities of the Company outstanding. Except as set forth on Schedule 3(e), none of the Shares has been issued in violation of, or are subject to, any purchase option, call, right of first refusal or preemptive, subscription or similar right. There are no outstanding warrants, options, rights, agreements, convertible or exchangeable securities or other commitments (other than this Agreement) (i) pursuant to which any Seller or the Company is or may become obligated to issue, sell, purchase, return or redeem any shares of capital stock or other securities of the Company or (ii) that give any person the right to receive any benefits or rights similar to any rights enjoyed by or accruing to the holders of shares of capital stock of the Company.

(f) Equity Interests. Except as set forth on Schedule 3(f), none of the Company nor any of its Subsidiaries shall own, directly or indirectly, any capital stock of or other equity interests in any corporation, partnership or other person. All of the issued and outstanding shares of capital stock of each of the Company's Subsidiaries are duly authorized, have been validly issued, are fully paid and nonassessable and, as of the Closing, will be owned by the Company or its Subsidiaries free and clear of all Liens other than Liens that will be released in connection with the Closing (collectively, the "Permitted Liens").

(g) Financial Statements; Undisclosed Liabilities. (i) Schedule 3(g) sets forth (A) the unaudited balance sheet of the Company (on a consolidated basis) as of the June Balance Sheet, and the unaudited statement of income of the Company (on a consolidated basis) for the twelve month period ended June 30, 1997, and (B) the audited balance sheets of the Company and San Francisco as of September 30, 1995 and 1996, and the audited statements of income of the Company and San Francisco for the years ended September 30, 1995 and 1996 (the financial statements described in clauses (A) and (B) are collectively referred to herein as the "Financial Statements"). The Financial Statements have been prepared in conformity with GAAP applied on a basis consistent with prior periods (except in each case as described in the notes thereto) and on that basis fairly present (subject, in the case of the unaudited statements, to normal, recurring year-end audit adjustments and the absence of notes) the financial condition and results of operations of each of the Company and San Francisco as of the respective dates thereof and for the respective periods indicated.

(ii) As of the date hereof, neither the Company nor any of its Subsidiaries have any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise), except (A) as set forth or disclosed, reflected or reserved against in the Financial Statements, (B) for items set forth in Schedules 3(g) and 3(l) or (C) for liabilities and obligations incurred in the ordinary course of business consistent with past practice since the date of the June Balance Sheet that would not, individually or in the aggregate, result in a Material Adverse Effect.

(h) Absence of Changes or Events. (i) Except as set forth on Schedule 3(h), since the date of the June Balance Sheet there has not been any event or development in the business, assets, financial condition or results of operations of the Company and its Subsidiaries that would result in a Material Adverse Effect.

(ii) Except as set forth in Schedule 3(h) and except for the sale of the Shares as contemplated hereby, since the date of the June Balance Sheet, the businesses of the Company and the Subsidiaries have been conducted in the ordinary course and in substantially the same manner as previously conducted, and neither the Company nor its Subsidiaries have (A) amended their certificate of incorporation or by-laws or similar documents, (B) declared or paid any dividend or made any other distribution to their stockholders whether or not upon or in respect of any shares of their capital stock, (C) redeemed or otherwise acquired any shares of their capital stock or issued any capital stock or any option, warrant or right relating thereto or any securities convertible into or exchangeable for any shares of capital stock, (D) adopted, or amended any Employee Plan (as defined in Section 3(o)), except as required by law, (E) granted to any director, officer or employee any increase in compensation or benefits, except for increases for any such employee in the ordinary course of business consistent with past practice or as may be required under existing agreements, (F) incurred or assumed any liability, obligation or indebtedness for borrowed money or guaranteed any such liability, obligation or indebtedness, (G) cancelled any indebtedness or waived any claims or rights of substantial value, (H) made any material change in any method of accounting or accounting practice by the Company or any of its Subsidiaries; or (I) made any sale, assignment, transfer or disposition of any item of plant, property or equipment having a net book value in excess of $10,000 (other than supplies), except in the ordinary course of business.

(i) Taxes. (i) For purposes of this Agreement, (A) "Tax" or "Taxes" shall mean all taxes, charges, fees, levies or other assessments, including, without limitation, income, gross receipts, municipal license, excise, real and personal property, sales, withholding, social security, occupation, use, service, license, payroll, franchise, transfer and recording taxes, fees and charges, including estimated taxes, imposed by Puerto Rico, its instrumentalities and municipalities or any other taxing authority (domestic or foreign), whether computed on a separate, consolidated, unitary, combined or any other basis; and such term shall include any interest, fines, penalties or additional amounts attributable to, or imposed upon, or with respect to any such taxes, charges, fees, levies or other assessments; (B) "Tax Return" shall mean any return, report or other document or information required to be supplied to a taxing authority in connection with Taxes; (C) "Secretary" shall mean the Secretary of the Treasury of Puerto Rico; (D) "Code" shall mean the Puerto Rico Internal Revenue Code of 1994, as amended and its predecessor, the Puerto Rico Income Tax Act of 1954, as amended, to the extent applicable; (E) "Pre-Closing Tax Period" shall mean all taxable periods ending on or before the Closing Date and the portion ending on the Closing Date of any taxable period that includes (but does not end on) such day; and (F) "Audit" shall mean any audit, assessment of Taxes, reassessment of Taxes,

or other examination by any taxing authority or any judicial or administrative proceedings or appeal of such proceedings.

(ii) The Company and the Subsidiaries are each corporations as defined in the Code.

(iii) In the last five years the only jurisdiction where each of the Company and the Subsidiaries has filed any income Tax Returns is Puerto Rico.

(iv) Hospital San Pablo has been issued a hospital facilities tax exemption granted pursuant to Act No. 168 of June 30, 1968, as amended, by resolution of the Secretary of Treasury of June 25, 1996 (the "Resolution"), granting certain tax concessions to Hospital San Pablo as more fully set forth in the Resolution. The Resolution has not been revoked or altered in any way and is in full force and effect.

(v) Except as set forth on Schedule 3(i), (A) each of the Company and its Subsidiaries has (x) duly filed with the appropriate Governmental Entities all Tax Returns required to be filed by it on or prior to the date hereof, and such Tax Returns are true, correct and complete in all material respects and (y) duly paid in full or made provision in accordance with GAAP for the payment of all Taxes for all periods ending through the date hereof, (B) there are no liens for Taxes upon the Shares or the assets of the Company and its Subsidiaries except for statutory liens for current Taxes not yet due, (C) each of the Company and its Subsidiaries has complied in all respects with all applicable laws, rules and regulations relating to the payment and withholding of Taxes, except where the failure to so comply would not have a Material Adverse Effect; and has, within the time and the manner prescribed by law, withheld from and paid over to the proper Governmental Entities all amounts required to be so withheld and paid over under applicable laws, (D) no Puerto Rico or foreign audits or other administrative proceedings or court proceedings are presently pending with regard to any Taxes or Tax Returns of the Company or its Subsidiaries, and neither the Company nor its Subsidiaries has received notice of any pending audits or proceedings, (E) there are no outstanding written requests, agreements, consents or waivers to extend the statutory period of limitations applicable to the assessment of any Taxes or deficiencies against the Company or its Subsidiaries, (F) neither the Company nor its Subsidiaries is a party to any agreement providing for the allocation or sharing of Taxes, (G) no power of attorney has been executed by the Company or its Subsidiaries with respect to any matter relating to Taxes which is currently in force, and (H) Hospital San Pablo has complied in all material respects with all of the requirements of Act No. 168 of June 30, 1968, as amended, the regulations order to enjoy the tax concessions provided under the Resolution.

(j) Assets; Title; Absence of Liens and Encumbrances.

(i) Schedule 3(j) is a true, correct and complete list of the Hospitals and a true, correct and complete description of all real property owned, leased, operated or used by the Company or any of its Subsidiaries (collectively, the "Real Property").

(ii) The Company and its Subsidiaries collectively own or validly lease all properties and assets, real, personal and mixed, tangible and intangible, comprising and employed in the operation of or associated with the Hospitals. Except for leased assets, each of the Company and its Subsidiaries has good and marketable title to all of the Real Property and all of their respective other assets, including those reflected in the consolidated balance sheet of the Company as of June 30, 1997, free and clear of all title defects, liens, pledges, security interests, claims, encumbrances and restrictions except, with respect to all such assets, the following encumbrances (collectively, "Permitted Encumbrances"): (A) mortgages and liens securing debt reflected as liabilities in the Financial Statements; (B) mechanics', carriers', workers', repairmen's, statutory or common law liens being contested in good faith and by appropriate proceedings, which contested liens are listed in Schedule 3(j); (C) liens for current Taxes not yet due and payable which have been fully reserved against, or which, if due, are being contested in good faith and by appropriate proceedings, which contested liens are listed in Schedule 3(j); and (D) such imperfections of title, easements, encumbrances and other liens, if any, as are set forth in the deeds or leases covering the Real Property or the surveys heretofore delivered to the Buyer or which are not substantial in character, amount or extent, and do not, singly or in the aggregate, materially detract from the value, or interfere with the present use, of the properties and assets subject thereto or affected thereby or otherwise materially impair the operations of the Company or any of its Subsidiaries as presently conducted.

(iii) All leases pursuant to which the Company or any of its Subsidiaries leases the Real Property or personal property are valid, binding and enforceable in accordance with their respective terms; and neither the Company nor its Subsidiaries has received notice of their default under such leases, and, to the knowledge of the Company, there are faults on the part of any other party thereto, or any event which, with notice or lapse of time or both, would constitute such a default. Schedule 3(j) sets forth a true, correct and complete list of all such leases.

(iv) Except as set forth in Schedule 3(j), neither the whole nor any portion of any parcel of the Real Property has been condemned, requisitioned or otherwise taken by any public authority, no notice of any such condemnation, requisition or taking has been received by the Company or any of its Subsidiaries and, to the knowledge of the Sellers, no such condemnation, requisition or taking is threatened or contemplated. To the knowledge of the Sellers, there are no public improvements which may result in special assessments against or otherwise affecting the Real Property.

(v) The Company has conducted its business in compliance with all applicable reservations, land use, zoning, health, fire, water and building codes affecting the Real Property, except for such non-compliance that would not individually or in the aggregate have a Material Adverse Effect. The Company has not received written notice from any Governmental Entity of any contemplated, threatened or anticipated change in the zoning classification of any of the Hospitals or any portion thereof.

(vi) Except as provided on Schedule 3(j)(vi), and other than as provided on Schedule 3(j)(ix) hereto as to which no representation is made, (a) the Hospitals are in a good state of repair and operating condition comparable to other hospitals located in Puerto Rico (ordinary wear and tear excepted) suitable for the current purposes used and (b) there are not existing in the Hospitals any structural defects (excluding any cosmetic defects or matters attributable to ordinary wear and tear), nor any life-threatening conditions, (except those attendant in the operation of a hospital facility in the ordinary course). All gas, electric power, storm sewer, sanitary sewer, water and other utility services necessary for the current operation and use of each Hospital are available at the boundaries of each Hospital and when necessary direct connection has been made to all such utility facilities. To the Sellers' knowledge except as set forth on Schedule 3(j)(iv), there are no plans, studies or efforts by any Governmental Entity that would modify or realign any street or highway adjacent to any of the Hospitals.

(vii) The Company has heretofore made available to the Parent an historical summary of plant, property and equipment of the Company and its Subsidiaries, as of September 30, 1997. Each Hospital contains all equipment, inventories and other personal property in sufficient condition and in quantities (of not less than that required by applicable Governmental Entities) to operate such Hospital at the capacity for which it is currently operated.

(viii) The Company is party to the maintenance contracts listed on Schedule 3(j)(viii) hereto (the "Maintenance Contracts") relating to the maintenance and repair of the roofs as identified therein, each of which are valid, binding and enforceable in accordance with their respective terms. The Maintenance Contracts provide coverage for the direct cost of any repairs to the roofs on the buildings associated with each applicable Hospital as identified therein, *provided* that the Parent causes the Company to exercise its rights under the Maintenance Contracts identified in Schedule 3(j)(viii) hereto to renew such contracts at the expiration of their initial terms. The Company has heretofore made available to the Parent true and correct copies of each of the Maintenance Contracts.

(ix) Notwithstanding anything to the contrary in this Agreement, the Sellers are not making any representations or warranties regarding, and the parties agree that the Sellers shall not otherwise have any liability for, the condition or any other matter with respect to the items listed on Schedule 3(j)(ix) hereto.

(k) Contracts. Except for this Agreement, and the transactions contemplated hereby, and the contracts listed on Schedule 3(k), as of the date hereof, neither the Company nor any of its Subsidiaries is a party to:

(i) any contract relating to the borrowing or lending of $200,000 or more by the Company or any Subsidiary;

(ii) any employment agreement, consulting agreement, severance agreement or other similar types of agreements with any person requiring payments of base compensation in excess of $50,000 per year unless terminable without payment or penalty upon no more than 30 days notice;

(iii) any contract not made in the ordinary course of business involving an estimated total future payment or payments in excess of $200,000 unless terminable without payment or penalty upon no more than 30 days notice; or

(iv) any contract for the sale of any of the Company's or any Subsidiaries' assets (other than inventory sales in the ordinary course of business), or the grant of any preferential rights to purchase any of the Company's or any Subsidiaries' assets.

Except as disclosed on Schedule 3(k), to the knowledge of the Sellers, as of the date hereof, no party is in breach or default under any contract described in clauses (i) through (iv) above ("Material Agreements"), except for such breaches and defaults as to which requisite waivers or consents have been or will be obtained prior to the Closing Date. Complete and correct copies of all Material Agreements together with all modifications and amendments thereto, have been made available to the Parent. For purposes of this Section 3(k), the term "contract" shall not include Employee Plans referred to in Section 3(o).

(l) Litigation. Except (i) as set forth on Schedule 3(1) and (ii) governmental inspections and reviews customarily made of businesses such as those of the Company and its Subsidiaries, as of the date hereof, there is no suit, action or proceeding pending or, to the knowledge of the Sellers, threatened in writing, against the Hospitals, the Company or any Subsidiary in any Federal, state, commonwealth or local court or agency that (A) seeks more than $500,000 in damages (net of insurance proceeds, if any), (B) seeks any injunctive relief or (C) seeks to have any effect on the Medicare or CHAMPUS provider status of the Hospitals. Neither the Hospitals, the Company nor any of its Subsidiaries is in default under any judgment, order or decree of any Governmental Entity applicable to its business.

(m) Insurance. Each of the Company and its Subsidiaries maintains policies of fire and casualty, liability and other forms of insurance in such amounts, with such deductibles

and against such risks and losses as are reasonable for the business and assets of the Company and its Subsidiaries. The material insurance policies maintained with respect to the Company and its Subsidiaries and their assets and properties are listed on Schedule 3(m). All such policies are in full force and effect, all premiums due and payable thereon have been paid (other than retroactive or retrospective premium adjustments that are not yet, but may be, required to be paid with respect to any period ending prior to the Closing Date), and no notice of cancellation or termination has been received with respect to any such policy which has not been replaced on substantially similar terms prior to the date of such cancellation.

(n) Employee and Labor Matters. Except as set forth on Schedule 3(n), (i) no action, suit, formal complaint, arbitration or proceeding or, to the knowledge of the Company, formal charge, inquiry or investigation, by or before any Governmental Entity (including without limitation the U.S. Equal Employment Opportunity Commission and the Anti-Discrimination Unit of the Department of Labor of Puerto Rico), or brought before any Governmental Entity by or on behalf of any employee, prospective employee, former employee, retiree, labor organization or other representative of the Company's or any of its Subsidiaries' employees is pending or, to the knowledge of the Sellers, threatened against the Company or any of its Subsidiaries or any employee of the Company or any of its Subsidiaries (including, without limitation, with respect to alleged sexual harassment), except for any such action, suit, formal complaint, arbitration or proceeding or, to the knowledge of the Company, formal charge inquiry or investigation, as would not individually or in the aggregate have a Material Adverse Effect; (ii) there is no labor strike, dispute, slowdown or stoppage actually pending or, to the knowledge of the Company, threatened against or involving or affecting the Company, any of its Subsidiaries or any of the Hospitals, and no union representation question exists respecting any of their respective employees; (iii) no formal labor grievance is pending before any Governmental Entity or, to the knowledge of the Sellers, threatened against the Company or any of its Subsidiaries, except for any such formal labor grievances which would not have a Material Adverse Effect; (iv) neither the Company nor any of its Subsidiaries is a party to, or otherwise bound by, any consent decree with, or material citation by, any Governmental Entity relating to employees or employment practices; and (v) the Company and its Subsidiaries are in compliance with all applicable laws, agreements, contracts, and applicable policies relating to employment, employee safety and health requirements, employment practices, wages, hours, and terms and conditions of employment (including, without limitation, with respect to workmens' compensation laws and disability insurance coverage laws), except for any such non-compliance which would not individually or in the aggregate have a Material Adverse Effect. Except as set forth on Schedule 3(n), neither the Company nor any of its Subsidiaries is a party to any collective bargaining agreements.

(o) Employee Plans. (i) Schedule 3(o) lists all employment agreements, all union, guild, labor or collective bargaining agreements, all employee benefit plans, and all other material arrangements or understandings, explicit or implied, written or oral whether for the

benefit of one or more persons, relating to employment, compensation or benefits, to which the Company or any of its Subsidiaries is a party or is obligated to contribute, or by which the Company or any of its Subsidiaries is bound, including: (A) all employee benefit plans within the meaning of section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"); (B) all deferred compensation, bonus, stock option, stock purchase, stock incentive, stock appreciation rights, restricted stock, severance or incentive compensation plans, agreements or arrangements; (C) plans, agreements or arrangements providing for "fringe benefits" or perquisites to employees, officers, directors or agents; and (D) all employment, consulting, termination or indemnification agreements (collectively, the "Employee Plans"). The Sellers have made available for inspection by the Parent true, correct and complete copies of all Employee Plans, all related summary plan descriptions, the most recent financial reports and summary annual reports and, where applicable, summary descriptions of any Employee Plans not otherwise reduced to writing. Except as set forth on Schedule 3(o), there are no negotiations or written demands or proposals that are pending or have been made since the respective dates of the Employee Plans which concern matters now covered, or that would be covered, by any Employee Plan.

(ii) The Company and each of its Subsidiaries and each of the Employee Plans have complied and are in compliance in all material respects with the applicable provisions of the Code, ERISA and all other applicable laws. The Company and each of its Subsidiaries have performed all of their obligations under all of the Employee Plans, including the full payment when originally due of all amounts required to be made as contributions thereto or otherwise.

(iii) With respect to each Employee Plan that is an "employee benefit plan" within the meaning of section 3(3) of ERISA, no transaction has occurred which is prohibited by section 406 of ERISA or which could give rise to a material liability under sections 502(i) or 409 of ERISA. None of the Employee Plans nor any fiduciary thereof has been the direct or indirect subject of an audit investigation or examination by any Governmental Entity within the last five years. There are no actions, suits, penalties or claims (other than routine undisputed claims for benefits) pending, or to the knowledge of the Company, threatened against or arising out of any of the Employee Plans or the respective assets thereof and, to the knowledge of the Company, no facts exist which could give rise to any such actions, suits, penalties or claims which might have a material adverse effect on any Employee Plan or a Material Adverse Effect.

(iv) Neither the Company nor any of its Subsidiaries maintains or has at any time maintained, or has or could have any liability with respect to, an Employee Plan subject to Title IV of ERISA and the Employee Plans have not been the subject of a reportable event, as such term is defined in Section 4043(b) of ERISA, which would require a notice to be filed with a Governmental Entity. No Employee Plan is or ever has been a "multiemployer plan" within

the meaning of section 3(37) of ERISA. Neither the Company nor any of its Subsidiaries has or could have any liability with respect to a "multiemployer plan" as defined under section 3(37) of ERISA. No Employee Plan now holds or has heretofore held any stock or other securities issued by the Company or any of its Subsidiaries. Neither the Company nor any of its Subsidiaries has established or contributed to, is required to contribute to or has or could have any liability with respect to any "multiple employer welfare arrangement" within the meaning of section 3(40) of ERISA.

(v) All group health plans of the Company and its Subsidiaries have been operated in material compliance with the group health plan continuation coverage requirements of sections 601 through 608 of ERISA, Title XXII of the Public Health Service Act and the provisions of the Social Security Act, to the extent such requirements are applicable. Neither the Company nor any of its Subsidiaries provides health or welfare benefits (through the purchase of insurance or otherwise) for any retired employee or any former employee.

(vi) No provision of any Employee Plan restricts the ability of the Buyer or the Company or its Subsidiaries to terminate the future accruals of obligations thereunder after the Closing Date; provided, however, that no such representation or warranty is made with respect to liabilities already accrued at the time of such termination.

(vii) There has been no act or omission by the Company or any of its Subsidiaries that has given rise or may give rise to fines, penalties, Taxes or related charges under sections 4980D, 502(c) or 502(l) of ERISA.

(viii) Solely for purposes of this Section 3(o), all references to the Company or any of its Subsidiaries includes any person which, together with the Company or any of its Subsidiaries, is considered an affiliated organization within the meaning of sections 3(5) or 4001(b)(1) of ERISA.

(p) Company Permits; Compliance with Legal Requirements. (i) Schedule 3(p) contains a complete and accurate list of all material licenses, permits, certificates, registrations, accreditations, orders, franchises, authorizations and approvals and all consents, variances and exemptions, of any Governmental Entity which are necessary for the operation of the Hospitals as currently operated, the conduct of the business of the Company and its Subsidiaries and utilization of the Real Property, including valid licenses from the Commonwealth of Puerto Rico to operate Hospital San Pablo, a 430-bed general acute care hospital, and Hospital San Francisco, a 160-bed general acute care hospital (collectively, the "Company Permits"), all of which are in full force and effect. Each of the Company and its Subsidiaries is in compliance with the applicable terms of each of the Company Permits, except where such failure would not have a Material Adverse Effect. No action is pending or, to the

knowledge of the Sellers, threatened or recommended by any Governmental Entity to revoke, withdraw or suspend any Company Permit.

(ii) The businesses of each of the Company and its Subsidiaries are being, and since June 30, 1997 have been, conducted in compliance with all applicable laws, except for such non-compliance that would not individually or in the aggregate have a Material Adverse Effect. To the knowledge of the Sellers, no investigation or review by any Governmental Entity with respect to the Company or any of its Subsidiaries is pending or threatened, nor has any Governmental Entity indicated an intention to conduct the same.

(iii) With respect to each of the Hospitals, the Company and its Subsidiaries are qualified for participation in the Medicare and CHAMPUS programs, have current and valid provider agreements with the Medicare program and, except as set forth in Schedule 3(p), are in compliance in all material respects with all conditions and standards of participation in such programs, except for such non-compliance that would not have a Material Adverse Effect, and have received all health planning approvals necessary for capital reimbursement on their assets. Neither the Company nor its Subsidiaries participates in the Medicaid program. No action is pending or, to the knowledge of the Sellers, threatened or recommended by any Governmental Entity to terminate or decertify any participation of the Hospitals in the Medicare and CHAMPUS programs nor, to the knowledge of the Sellers, has there been any decision not to renew any provider agreement related to the Hospitals. With the exception of deficiencies which are currently the subject of a waiver and those which are the subject of a plan of correction as set forth on Schedule 3(p), there are no outstanding written notices of deficiencies or written notices of work orders of a material nature of any Governmental Entity having jurisdiction over the Hospitals requiring conformity to any applicable law pertaining to the Hospitals, including the Medicare and CHAMPUS programs. Complete copies of the most recent survey reports and any waivers of deficiencies, plans of correction and any other investigation report issued with respect to the Hospitals have been made available to the Buyer.

(iv) Except as set forth on Schedule 3(p) and since October 1, 1994, all cost reports required to be filed by the Company or its Subsidiaries with respect to the Hospitals under Titles XVIII and XIX of the Social Security Act, or any other applicable law or requirements of private providers have been prepared and filed in accordance with all applicable laws, and copies of all such reports filed since October 1, 1994 have been made available to the Parent. The Company has paid or made provision to pay through proper recordation of any net liability all Notices of Program Reimbursement received from the Medicare program and tentative settlements for periods ended prior to September 30, 1995 for Hospital San Pablo and December 31, 1994 for Hospital San Francisco and any similar obligations with respect to the CHAMPUS program.

(v) Hospital San Pablo is accredited by the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO") and it is not conditionally accredited. The date of Hospital San Pablo's surveys by the JCAHO within the past five years, and any statements of deficiencies and plans of correction related to such surveys, are set forth in Schedule 3(p). With the exception of deficiencies which are currently the subject of a waiver and those which are the subject of a plan of corrections as set forth in Schedule 3(p), there are no outstanding deficiencies of a material nature under the JCAHO conditions, standards and requirements for accreditation. Hospital San Pablo is in material compliance with all conditions, standards and requirements for accreditation by the JCAHO.

(vi) Schedule 3(p) includes a true, correct and complete statement of: (A) the bed categories for which each Hospital is, and immediately prior to Closing will be, licensed and/or qualified for Medicare and CHAMPUS; (B) the number of beds in each such category; (C) the number of beds in each such category which are, and immediately prior to Closing will be, available for use in such Hospital; and (D) the number of patients, as of stated date reasonably proximate to the date hereof, admitted in each Hospital who (I) qualify for Medicare, (II) qualify for CHAMPUS and (III) qualify for neither Medicare nor CHAMPUS. Except as set forth in Schedule 3(p), immediately prior to Closing, no beds will be in use at the Hospitals in any category for which such Hospital is not licensed. The Sellers have no knowledge that the number of licensed beds in any category may be reduced by any Governmental Entity.

(vii) Schedule 3(p) includes a true, correct and complete statement of all ancillary patient services that are, and immediately prior to Closing will be, offered by each Hospital, the licensed capacity of each service (if applicable) and the number of available beds (if applicable). Neither the Company nor any of its Subsidiaries has received notice that any Hospital will not be properly licensed or certified to provide any such service prior to or upon the consummation of the sale of the Shares contemplated hereby.

(q) Intellectual Property. Set forth on Schedule 3(q) are all material trademarks, copyrights and other intellectual property rights used or held for use primarily in the business of the Company and its Subsidiaries (the "Intellectual Property"), owned, or licensed for use, by the Company and its Subsidiaries as of the date hereof. Except as set forth on Schedule 3(q) hereto, there are no existing, or, to the knowledge of the Sellers, threatened, claims based on the use by, or challenging the ownership of, the Company or its Subsidiaries of any Intellectual Property that would have a Material Adverse Effect. The Sellers do not have any knowledge of any infringing use of any Intellectual Property by any other person.

(r) Environmental Matters. (i) For the purposes of this Agreement, (A) "Release" shall mean any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing of any Hazardous Substance into the environment, except as authorized under any applicable Environmental Law; (B) "Environmental

Laws" shall mean the Puerto Rico and Federal applicable laws and regulations, as of the date of this Agreement relating to the use, handling, treatments, storage, transportation, disposal, emissions, discharges or releases of Hazardous Substances or otherwise relating to the protection of the environment (including, without limitation, ambient air, surface water, ground water, land surface or subsurface strata); and (C) "Hazardous Substances" shall mean any substance, material or waste which is regulated by any Governmental Entity with jurisdiction over the Hospitals pursuant to any applicable Environmental Laws, and includes, without limitation: (I) any substance, material or waste defined, used or listed as a "hazardous waste", "extremely hazardous waste", "restricted hazardous waste", "hazardous substance", "toxic substance" or other similar terms as defined or used in any applicable Environmental Laws, and; (II) asbestos, polychlorinated biphenyl, or radioactive materials.

(ii) The Company has heretofore conducted Phase I environmental assessments of the Real Property (the "Environmental Assessments") and has made available the same to the Parent. Except as disclosed in Schedule 3(r) or the Environmental Assessments: (a) none of the Real Property is in violation of any Environmental Laws, except for violations which would not have a Material Adverse Effect; (b) neither the Company nor any of its Subsidiaries has Released any Hazardous Substances from the Real Property in a manner that has violated any Environmental Laws and, to the knowledge of the Sellers, there has been no such Release by any previous owner or operator of any of the Real Property; (c) to the knowledge of the Sellers and except as set forth on Schedule 3(r), the Real Property has not (i) ever had any underground storage tanks, as defined in 42 U.S.C. (S)6991(1)(A)(I), whether empty, filled or partially filled with any Hazardous Substance, or (ii) any friable asbestos or any material that contains any hydrated mineral silicate, including chrysolite, amosite, crocidolite, tremolite, anthophylite and/or actinolite; (d) neither the Company, any of its Subsidiaries nor any of the Hospitals has received any request for information, notice or order alleging that it may be a potentially responsible party under any Environmental Laws for the investigation or remediation of a Release or threatened Release of Hazardous Substances from the Real Property; (e) no event has occurred with respect to any of the Real Property which, with the passage of time or the giving of notice, or both, would constitute a violation of or non-compliance with any applicable Environmental Law or the Company Permits; and (f) there is no lien, notice, litigation or, to the knowledge of the Sellers, threat of litigation relating to an alleged unauthorized Release of any Hazardous Substance on, about or beneath the Real Property (or any portion thereof), or the migration of any Hazardous Substance to or from the Real Property, or alleging any obligation under Environmental Laws. The Sellers will promptly notify the Buyer should the Company, any of its Subsidiaries or any of the Hospitals receive any such request for information, notice or order, or become aware of any lien, notice, litigation or threat of litigation relating to an alleged unauthorized Release of any Hazardous Substance on, about or beneath the Real Property (or any portion thereof) or any other alleged environmental contamination or liability with respect to the Real Property (or any portion thereof). Except as disclosed on Schedule 3(r) or in the Environmental Assessments, the Company and its Subsidiaries hold all the Company Permits

required under any Environmental Law in connection with the use of the Real Property or the operation of the Hospitals.

(s) Brokers, Finders, etc. Except for PaineWebber Incorporated ("PWI"), the Sellers and the Company are not subject to any valid claim of any broker, investment banker, finder or other intermediary in connection with the sale of the Shares contemplated by this Agreement. The Sellers are solely responsible for any payment, fee or commission that may be due to PWI in connection with the transaction contemplated hereby, including any withholding required to be made on such payments.

(t) Books and Records. The Company has provided the Parent with access to all of the books and records of the Company, its Subsidiaries and the Hospitals. All of such books and records are true, correct and complete in all respects, and are and have been maintained in compliance with all applicable laws, except where the failure to be true, correct and complete or in such compliance with all applicable laws will not have a Material Adverse Effect. Without limiting the generality of the foregoing and except where the failure to do such actions would not cause a Material Adverse Effect: (i) the Company and its Subsidiaries have at least since September 30, 1996 maintained continuous ownership, care, custody and control of all patient medical records of the Hospitals in compliance with all applicable laws; (ii) all such patient medical records have been maintained for the retention period required by applicable laws; and (iii) the Company and its Subsidiaries have maintained the security and confidentiality of all patient medical records as required by applicable laws.

(u) Special Funds. Neither the Company nor any of its Subsidiaries is subject to any material liability in respect of amounts received by any of them for the purchase or improvement of any Real Property or any part thereof under restricted or conditioned grants or donations, including monies received under the Public Health Service Act, 42 U.S.C. (S)291 et seq., if any.

(v) Medical Staff Matters. The Company has heretofore made available to the Parent true, correct and complete copies of the bylaws and rules and regulations of the medical staff of the Hospitals. Except as set forth on Schedule 3(v), there are no pending disputes with applicants to be staff members of the Hospitals or staff members of the Hospitals or, to the knowledge of the Sellers, threatened in writing which would reasonably be expected to have a Material Adverse Effect; and all appeal periods in respect of any medical staff member or applicant against whom an adverse action has been taken have expired.

(w) Puerto Rico Residence. Except as set forth on Schedule 3(w) hereto, each Seller represents and warrants that he or she is a bona fide resident of the Commonwealth of Puerto Rico within the meaning of U.S. Internal Revenue Code, Section 933, and that he or she is not subject to U.S. individual income tax with respect to the sale of the Shares.

4. Representations and Warranties of the Parent and the Buyer. The Parent and the Buyer hereby jointly and severally represent and warrant to the Sellers as follows:

(a) Organization and Standing. The Parent and the Buyer are corporations duly organized, validly existing and in good standing under the laws of Delaware.

(b) Authority. The Parent and the Buyer have all requisite corporate power and authority to carry on their business as presently conducted and to enable them to own, lease and operate their properties and assets they now own, lease and operate. Each of the Parent and the Buyer are duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction in which the conduct or nature of its business or the ownership or use of its properties or assets requires such qualification, except such jurisdictions where the failure to be so qualified or in good standing would not effect the ability of the Parent or the Buyer to consummate the transactions contemplated hereby. The execution and delivery of the Agreement and the Escrow Agreement, and the performance by the Parent and the Buyer of their respective obligations hereunder and thereunder, have been duly authorized by all necessary action on the part of each of the Parent and the Buyer. This Agreement has been duly executed and delivered by each of the Parent and the Buyer and, assuming the due execution and delivery hereof by the Sellers, constitutes a valid and binding obligation of each of the Parent and the Buyer, enforceable against each of the Parent and the Buyer in accordance with its terms (subject, as to the enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium (whether general or specific) and similar laws relating to creditors' rights generally, and general principles of equity (regardless of whether such enforcement is sought in a proceeding in equity or at law)). The Escrow Agreement, when executed and delivered by the Buyer and, assuming the due execution and delivery thereof each of by the Sellers and the Escrow Agent will constitute a valid and binding obligation of the Buyer, enforceable against the Buyer in accordance with its terms (subject, as to enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium (whether general or specific) and sim to creditors' rights and general principles of equity (regardless of whether such enforcement is sought in a proceeding in equity or at law)).

(c) No Conflicts; Consents. The consummation of the transactions contemplated hereby will not, conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a material benefit under any provision of (i) the respective certificate of incorporation or by-laws of the Parent or the Buyer, (ii) any note, bond, mortgage, indenture, deed of trust, license, lease, contract, commitment, agreement or arrangement to which the Parent or the Buyer is a party or by which any of them or any of their respective properties or assets is bound or (iii) any judgment, order or decree, or statute, law, ordinance, rule or regulation, applicable to the Parent or the Buyer or any of their respective

properties or assets, in each case except for any such conflict, violation, default or right which would not have a Material Adverse Effect. No consent, approval, license, permit, order or authorization of, or registration, declaration or filing with, any Governmental Entity is required to be obtained or made by the Parent or the Buyer or in connection with the consummation of the transactions contemplated hereby other than (x) compliance with and filings under the HSR Act and (y) for those the failure of which to make or obtain would affect the ability of the Parent or the Buyer to consummate the transactions contemplated hereby.

(d) Financing. The Parent and the Buyer have sufficient funds or firm financing commitments in place with respect to all funds necessary to consummate the transactions contemplated by this Agreement. The Parent and the Buyer will have available as of the Closing Date funds sufficient to pay the Purchase Price and the Long-Term Debt Amount.

(e) Securities Act. The Buyer is acquiring the Shares for its own account for investment and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act of 1933, as amended (the "Securities Act") or any applicable state securities law. Each of the Parent and the Buyer (i) is knowledgeable, sophisticated and experienced in business and financial matters and fully understands the limitations on transfer of the Shares and (ii) is an "accredited investor" as such term is defined in Rule 501(a) of Regulation D under the Securities Act.

(f) Brokers, Finders, etc. Neither the Parent nor the Buyer are subject to any valid claim of any broker, investment banker, finder or other intermediary in connection with the transactions contemplated by this Agreement.

5. Covenants of the Sellers. Each Seller individually covenants and agrees with the Parent and the Buyer as to such Seller as follows:

(a) Access. Prior to the Closing, each Seller shall cause the Company and its Subsidiaries to give the Parent and the Buyer and their officers, employees, representatives, counsel and accountants full access, during normal business hours and upon reasonable notice, to the personnel, properties, financial statements, contracts, books, records, working papers and other relevant information pertaining thereto of the Hospitals, the Company and its Subsidiaries. Prior to the Closing, each Seller shall cause the officers and employees of the Company and its Subsidiaries to furnish to the Parent and the Buyer and their officers, employees, representatives, counsel and accountants such financial and operating data and other information with respect to the business, properties and assets of the Company and its Subsidiaries as the Parent and the Buyer shall from time to time reasonably request. The Sellers and the Company shall, and shall use reasonable efforts to cause the Sellers' Accountants to, cooperate with the Parent and the Buyer in the preparation and filing, after the Closing, of such financial information about the Company and its Subsidiaries as may be required to be included in the Parent's filings with the

Securities and Exchange Commission if requested by the Parent. Any expenses incurred in connection with such audit shall be promptly paid or reimbursed by the Parent or the Buyer.

(b) Ordinary Conduct. Except (i) as may be permitted herein, (ii) as set forth on Schedule 5(b), (iii) with the prior consent of the Buyer (which consent shall not be unreasonably withheld) and (iv) in the ordinary course of business consistent with past practices, from and after the date hereof each of the Company and its Subsidiaries will: (A) carry on its business in substantially the same manner as has heretofore been conducted and not make any change in the personnel, operations, finance, accounting practices or policies or assets of the Hospitals except for any such change which would not have a Material Adverse Effect; (B) continue to maintain the Hospitals in substantially the same working order and condition as heretofore in existence (ordinary wear and tear excepted); (C) use their best efforts to maintain relationships with physicians, consistent with the medical staff bylaws of the Hospitals and, to the extent commercially reasonable, maintain relationships with suppliers and others having business relations with the Hospitals consistent with the terms of such relationships; (D) perform all of its obligations under Material Agreements and not enter into or terminate or amend in any respect that would have a Material Adverse Effect any Material Agreement; (E) neither cancel, nor allow to lapse nor make any material change in the coverage of any insurance policy applicable to the Company, any of its Subsidiaries or the Hospitals; (F) pay all Taxes as they become due, unless such Taxes are being disputed and a reserve is established in respect of such disputed Taxes; (G) neither make offers of employment to any persons for periods subsequent to the Closing (except for offers made in the ordinary course for employment on an at will basis), nor enter into any agreement with respect thereto nor incur or agree to incur any liability with respect thereto; (H) neither adopt nor amend in any material respect any Employee Plans; (I) not increase the compensation, in any form, payable or to become payable to any employee, consultant or agent, except for employees' compensation increases in the ordinary course of business in accordance with existing personnel policies; (J) not incur any indebtedness or guarantee any indebtedness of third parties, nor issue any debt securities in excess of $100,000 in the aggregate; (K) not create or assume any mortgage, pledge or other Lien or encumbrance upon any of its assets, other than Permitted Encumbrances and Permitted Liens; (L) neither acquire nor agree to acquire by merging or consolidating with, or by purchasing a substantial equity interest in or a substantial portion of the assets of, or by any other manner, any person; (M) except for expenditures included within the CapEx Amount and as otherwise contemplated herein, neither make nor authorize any purchase order or capital expenditure in excess of $20,000; (N) neither sell, lease, assign nor otherwise transfer or dispose of any assets (other than supplies and other inventory); (O) not amend their certificate of incorporation or by-laws or similar documents; (P) not declare or pay any dividend or make any other distribution to their stockholders whether or not upon or in respect of any shares of their capital stock; (Q) not redeem or otherwise acquire any shares of their capital stock or issue any capital stock or any option, warrant or right relating thereto or any securities convertible into or exchangeable for any shares of capital stock; (R) not enter into any operating lease providing for payments aggregating in excess of $20,000; and (S) not cancel or

waive any right not otherwise covered by the foregoing clauses (A) through (R) that would, individually or in the aggregate, have a Material Adverse Effect.

(c) Other Transactions. From the date of execution and delivery of this Agreement to the Closing, no Seller shall, nor shall such Seller cause or permit the Company or any of its Subsidiaries or any of their respective directors, officers, stockholders or representatives to, directly or indirectly, encourage, solicit, initiate or participate in discussions or negotiations with, or provide any information or assistance to, any person or group (other than the Parent, the Buyer and their respective representatives) concerning any merger, sale of securities, sale of substantial assets or similar transaction involving the Company or any of its Subsidiaries. In the event that any of the Sellers, the Company or its Subsidiaries receives a proposal relating to any such transaction, such Seller shall promptly notify the Parent and the Buyer of such proposal.

(d) Non-Competition. Each of the Sellers agrees that he or she will not for a period of five (5) years from the Closing Date directly or indirectly build, invest in, assist in the development of, or have any management role in, any firm, corporation, business or other organization or enterprise primarily engaged, directly or indirectly, in provision of hospital services within the Commonwealth of Puerto Rico without first receiving the written consent of the Parent. If any court determines that the restrictive covenant set forth in this Section 5(d), or any part of such covenant, is unenforceable because of the duration of such provision or the geographic area covered thereby, such court shall have the power to reduce the duration or geographic area of such provision and, in its reduced form, such provision shall then be enforceable and shall be enforced. Notwithstanding the foregoing, (i) this Section 5(d) shall apply only to such Sellers who individually own in excess of 1% of the Shares, (ii) this Section 5(d) shall not prevent the practice of medicine by any Seller and (iii) each of the Sellers may own up to 1% of any class of stock of any such corporation or entity listed on a national securities exchange or quoted on The Nasdaq Stock Market.

6. Covenants of the Parent and the Buyer.

(a) Confidentiality. The Buyer acknowledges that the information being provided to them in connection with the purchase and sale of the Shares and the consummation of the other transactions contemplated hereby is subject to the terms of a confidentiality agreement, dated July 30, 1997, between the Parent and the Company (the "Confidentiality Agreement"), the terms of which are incorporated herein by reference.

(b) Employees and Employee Benefit Plans. (i) The Buyer shall cause the Company and its Subsidiaries to offer the employment, on an at will basis and at substantially the same rates of compensation as in effect immediately prior to the Closing, to all employees of the Company and its Subsidiaries employed at the Closing Date (including, without limitation, the

medical staff of the Hospitals, on the same basis and with the same privileges, subject to applicable medical staff by-law requirements as in effect immediately prior to the Closing Date. The Buyer shall substantially the same benefits as in effect immediately prior to the Closing for at least two (2) years after the Stock Purchase Closing. Notwithstanding anything to the contrary, no contracts of employment shall be deemed to have been created pursuant to this Section 6(b)(i).

(ii) The Buyer shall cause service by employees of the Company or its Subsidiaries to be recognized under each benefit plan or arrangement established, maintained or contributed to by the Buyer, the Company or its Subsidiaries after the Closing for the benefit of any such employees for purposes of (A) eligibility to participate and (B) vesting, but in no event shall such service be taken into account in determining the accrual of benefits under any such benefit plan or arrangement, including, but not limited to, a defined benefit plan.

(c) *WARN Act*. The Buyer acknowledges and agrees that any employment loss within the meaning of the Worker Adjustment and Retraining Notification Act (the "WARN Act"), 29 U.S.C. (S)(S) 2101 *et seq.*, suffered by any employee of the Hospitals, the Company or its Subsidiaries immediately upon or within 90 days of the Closing, shall have been caused by the Parent's or the Buyer's decision not to continue the employment of such employee, and not by the sale of the Company and its Subsidiaries. The Parent and the Buyer each further acknowledge and agree that they shall be responsible for giving any notices required by the WARN Act, that they are liable to any employee who does not receive notice under, and who suffers an employment loss (as defined in the WARN Act) and that they are responsible to and shall indemnify and hold harmless the Sellers for any and all claims asserted under the WARN Act because of a "plant closing" or "mass layoff," as defined therein, occurring on or after the Closing Date (unless such claims are due solely and directly to acts of the Sellers prior to the Closing Date). For purposes of this Agreement, the Closing Date is and shall be the same as the "effective date" of the sale within the meaning of the WARN Act.

(d) *Indigent Care and Community Commitments*. After the Closing, the Buyer shall (i) cause the Company and its Subsidiaries to provide indigent care as required by applicable law and in accordance with the policies of the Hospitals existing at June 30, 1997 and (ii) commit such resources as reasonably necessary to expand the medical staff and clinical services of the Company and its Subsidiaries to meet the needs of the Hospitals and their respective local community.

(e) *Advisory Board*. Promptly following the Closing, the Buyer shall establish an advisory board (the "Advisory Board") consisting of representatives from (i) the Board of Directors of the Company as it exists on the date hereof, (ii) the medical staff of the Hospitals, (iii) members of the community and (iv) the Buyer. From and after the Closing, the Advisory Board shall meet on a regular basis with the Buyer and shall act on behalf of the

Hospitals for the purpose of granting medical staff privileges to physicians and other members of the medical staff and, subject to the rights and obligations of the Buyer as the owner of the Hospitals, shall assist in developing the Hospitals' policies and shall make recommendations to the Buyer.

(f) Capital Commitments. From and after the Closing, the Buyer shall continue and complete the capital projects set forth on Schedule 6(f) hereto.

(g) Names of Hospitals. For a period of five (5) years following the Closing Date, the Buyer shall continue using the names "Hospital San Francisco" and "Hospital San Pablo" as the respective names of the Hospitals.

(h) Fajardo. If the Fajardo Acquisition is not consummated on or prior to the Closing Date, the Buyer agrees to cause the Company and its Subsidiaries to consummate the Fajardo Acquisition in accordance with the terms of the Asset Purchase Agreement among San Pablo Del Este, Inc., the Company, the Department of Health of Puerto Rico, the Puerto Rico Health Facilities and Services Administration, the Government Development Bank for Puerto Rico and the Puerto Rico Department of Transportation and Public Works, with respect thereto, executed by the parties thereto on or prior to the Closing Date. The Parent and the Buyer agree that any exercise, prior to or after the Closing, of any right by the Commonwealth of Puerto Rico in connection with the Fajardo Acquisition, including without limitation any right of first refusal with respect thereto, shall in no way affect the obligations of the Parent and the Buyer to proceed with the transactions contemplated hereby or the Parent's guarantee of the Buyer's obligations hereunder, or give any rights to the Parent or the Buyer to make any claim against the Sellers with respect thereto. The Parent and the Buyer further agree that if, prior to the Closing Date, the Company or its Subsidiaries determine not to consummate the Fajardo Acquisition for any reason, the Buyer will proceed with the purchase of the Shares contemplated hereby.

(i) Long-Term Debt. At the Closing, the Buyer shall discharge in full an aggregate amount (the "Non-Assumed Long-Term Debt") equal to the difference between (x) the Long-Term Debt Amount, and (y) the total amount of the obligations to remain in place at the Company that are reflected in the "Obligation under Capital Lease" line item and the "Current Portion of Capital Lease" line item of the Closing Balance Sheet. In connection with any amounts included within the Non-Assumed Long-Term Debt attributable to the credit agreement, dated as of March 27, 1997, by and among Citibank, N.A., for itself and as agent for the lenders thereunder, and the Company and San Francisco (the "Citibank Loan"), the Buyer shall obtain in consideration thereof (i) a release, satisfactory to the Buyer, from the bank to the Company and its Subsidiaries of all further liabilities and liens thereunder and (ii) a release, satisfactory to the Guarantors, from the bank to the Guarantors (as defined in Section 8(b)(ii) below) of their personal guarantees thereof.

(j) Parent Guarantee of the Buyer's Obligations. The Parent irrevocably and unconditionally guarantees, as primary obligor, the due and punctual performance by the Buyer and its permitted assigns of the agreements and obligations under this Agreement and the Escrow Agreement and all agreements and instruments to be executed by the Buyer and its permitted assigns as contemplated hereunder and thereunder. This Guarantee shall survive the Closing.

7. Mutual Covenants. (a) Consummation of the Transactions. Subject to the terms and conditions of this Agreement, each party hereto shall use its best efforts to cause the Closing to occur. The Sellers shall cause the Company and its Subsidiaries and their respective directors, officers, stockholders and representatives to cooperate with the Parent and the Buyer, and the Parent and the Buyer shall cooperate with the Sellers, the Company and its Subsidiaries in filing any necessary applications, reports or other documents with, giving any notices to, and seeking any consents from, all Governmental Entities and all third parties as may be required in connection with the consummation of the transactions contemplated by this Agreement and the performance by the Company and its Subsidiaries of their businesses after such consummation, and in seeking necessary consultation with and prompt favorable action by any such Governmental Entity or third party.

(b) Publicity. The Sellers, the Parent and the Buyer agree that, from the date of the execution and delivery of this Agreement through the Closing, no public release or announcement concerning the transactions contemplated hereby shall be issued by any party hereto or the Company or its Subsidiaries without the prior consent of (i) the Parent in the case of a release or an announcement by a Seller, the Company or any of its Subsidiaries or (ii) the Representatives in the case of a release or an announcement by the Parent or the Buyer (in each case which consent shall not be unreasonably withheld), except as such release or announcement may be required by law or the rules or regulations of any United States or foreign securities exchange, in which case the party required to make the release or announcement shall allow the other party reasonable time to comment on such release or announcement in advance of such issuance. After the date hereof, the parties hereto shall not make any comments or statements with respect to the transactions contemplated hereby to any third party (including without limitation members of the news media, securities analysts and employees of the Company, any of its Subsidiaries, the Parent or the Buyer) without the prior consent of the Parent or the Representatives, as the case may be.

(c) Antitrust Notification. The Sellers shall cause the Company to, and the Parent and the Buyer shall, as promptly as practicable, but in no event later than ten (10) business days following the execution and delivery of this Agreement, file with the United States Federal Trade Commission (the "FTC") and the United States Department of Justice (the "DOJ") the notification and report form, if any, required for the transactions contemplated hereby and any supplemental information requested in connection therewith pursuant to the HSR Act. Any such notification and report form and supplemental information shall be in substantial compliance with

the requirements of the HSR Act. The Sellers shall cause the Company to furnish to the Parent and the Buyer, and the Parent and the Buyer jointly and severally shall furnish to the Company, such necessary information and reasonable assistance as may be requested in connection with the preparation of any filing or submission which is necessary under the HSR Act. The Sellers shall cause the Company to keep the Parent and the Buyer informed, and the Parent and the Buyer jointly and severally shall keep the Company informed, of the status of any communications with, and any inquiries or requests for additional information from, the FTC and the DOJ and shall comply promptly with any such inquiry or request.

(d) Hospital Records. (i) The term "Hospital Records" shall mean (A) all or any portion of the medical, clinical and other records directly or indirectly associated with the admission, care and treatment of patients at the Hospitals (excluding, however, all billing, other financial and marketing information related thereto) for periods ending on or prior to the Closing Date (the "Patient Records") and (B) all or any portion of the financial and other records and files of the Company and its Subsidiaries for periods ending on or prior to the Closing Date (the "Business Records") including, without limiting the generality of the foregoing, any records, documents or other material. Notwithstanding the foregoing, the parties shall cooperate in providing copies and access to the Hospital Records as set forth below in clause (iii).

(ii) On the Closing Date, the Sellers shall deliver or cause to be delivered to the Buyer all Hospital Records, if any, in the possession of the Sellers relating to the business and operations of the Company and its Subsidiaries, subject to the following exceptions:

(A) The Representatives may retain all Hospital Records prepared in connection with the sale of the Shares, including bids received from other parties, if any, and analyses relating to the Company and its Subsidiaries; and

(B) The Representatives may retain any Tax Returns and supporting work papers, and the Parent and the Buyer shall be provided with copies of such Tax Returns only to the extent that they relate to the Company's or its Subsidiaries' separate returns or separate Tax liability prior to the Closing Date.

(iii) The Parent and the Buyer shall retain the Hospital Records at the Hospital (or at such other locations as the Parent and the Buyer and the Representatives shall determine by their mutual agreement from time to time) at the Buyer's cost, pursuant to the provisions of Regulation No. 52 (Regulation for the Operation of Health Facilities in Puerto Rico) enforced by the Puerto Rico Department of Health, until the expiration of the time periods set forth in Regulation No. 52 (and, if at the expiration thereof any tax or payor audit or judicial proceeding is in process or the applicable statute of limitations has been extended or has not then expired or terminated, for such longer period if such audit or proceeding is in process or such statutory period is extended and for such longer period until such expiration or termination) (the

"Document Retention Period"). After the Closing, the Buyer shall grant, and the Representatives shall have, full access to the Hospital Records (including any Patient Records) as needed for any lawful purpose (including the Representative's inspection and copying of the same), and the Representatives shall have the same rights of access to inspect and copy that the Representatives had prior to the Closing, subject to the Buyer's standard policies and procedures concerning confidentiality and compliance with applicable laws; *provided, however*, that any Hospital Records delivered to or made available to the Representatives, the Sellers and their representatives will be treated as strictly confidential by the Representatives, the Sellers and their representatives, will not be directly or indirectly divulged, disclosed or communicated to any other person other than the Representatives, the Sellers and their representatives who are reasonably required to have access to such information (unless the Representatives are compelled to disclose the same by judicial or administrative process), and will be returned to the Buyer when the Repruyer shall instruct the appropriate employees of the Company, its Subsidiaries and the Hospitals to cooperate in providing access to such records to the Representatives and their authorized representatives as contemplated herein. Access to such records shall be, wherever reasonably possible, during normal business hours, with reasonable prior written notice to the Parent and the Buyer of the time when such access shall be needed. The Representatives' employees, representatives and agents shall conduct themselves in such a manner so that the Parent's and the Buyer's normal business activities shall not be unduly or unnecessarily disrupted. After the expiration of the aforementioned Document Retention Period, the Buyer or the Parent may, pursuant to the provisions of Regulation No. 52, destroy Hospital Records in their possession; *provided, however*, that, for a period of two (2) years after the Document Retention Period, the Buyer and the Parent shall not (and shall not allow the Company or its Subsidiaries to), without 90 days prior written notification to the Representatives (the "Destruction Notice"), destroy any Hospital Records. Within 80 days after its receipt of the Destruction Notice, the Representatives shall have the right, at the Sellers' expense, to require the Buyer to deliver any such records to the Representatives and the Buyer shall thereupon deliver the same to the Representatives. Within 10 business days following the Closing, the Buyer shall apprise the executive officers and such other appropriate employees of the Company, its Subsidiaries and the Hospitals, as the case may be, of, and shall instruct such officers and employees to adopt and follow a records retention/destruction policy with respect to the Hospital Records which complies with, the foregoing record maintenance and destruction program for the Hospital Records.

(e) *Related Agreements*. The Parent and the Company shall use their best efforts to reach agreement on or before the Closing Date with respect to, and shall negotiate in good faith, (i) the Real Estate Purchase Agreement (as defined in Section 8(a)(v) below) on the terms set forth on Schedule 7(e) hereto, and (ii) the Escrow Agreement on the terms set forth on Schedule 2(c) hereto.

(f) Fajardo. Prior to the Closing, the Company shall include the Parent and the Buyer in any negotiations with the government of the Commonwealth of Puerto Rico regarding the Fajardo Acquisition and the parties will negotiate the final terms of such Fajardo Acquisition substantially in accordance with the terms of the letter of understanding, dated November 4, 1997, between the Puerto Rico Department of Health, the Government Development Bank and San Pablo del Este, Inc. and the letter dated October 27, 1997, between the Puerto Rico Department of Health and the Government Development Bank to San Pablo del Este, Inc., regarding the Fajardo Acquisition.

(g) Additional Insurance. The parties hereto will use their respective best efforts to obtain a "tail insurance" policy for any suits, actions or proceedings that may arise against the Hospitals, the Company or any Subsidiary (the "Additional Insurance"), the cost of which shall be shared equally by the Parent and the Buyer, on the one hand, and the Sellers, on the other hand, provided that in no event shall the Sellers be obligated in the aggregate to pay more than $250,000 of such cost.

(h) Waiver of Article Eight. The Company shall waive its right under Article Eight of the Company's Certificate of Incorporation on or before the Closing Date.

(i) Permitted Escrow. In the event that the Shares identified on Schedule 3(a) are not available for transfer on or prior to the Closing as disclosed on such Schedule (and only for purposes of effectuating the transfer thereof) the Buyer and such Sellers shall effectuate the purchase and sale of such Shares through an interest bearing escrow arrangement (with interest accruing for the benefit of the Sellers providing for the escrow of such Sellers' respective Pro Rata Portions of the Purchase Price and the Shares, the release thereof being subject only to the receipt of any necessary approvals identified Schedule 3(a) or the consummation of the merger as hereinafter provided. At the Buyer's option and in accordance with applicable law, after the Closing the Buyer may effect a "short-form" merger in order to acquire such Shares, provided that the consideration to be paid in respect of such Shares shall be an amount equal to the sum of (x) each of such Sellers' Pro Rata Portions of the Purchase Price, plus (y) such Seller's proportionate interest in interest earned during the aforementioned escrow agreement. Except as provided in this Section 7(i), the agreements of such Sellers and the Buyer provided in this Agreement shall otherwise remain unaffected.

(j) Further Assurances. From time to time, as and when reasonably requested by another party hereto, a party hereto shall execute and deliver, or cause to be executed and delivered, all such documents and instruments and shall take, or cause to be taken, all such further acts or other actions as such other party may reasonably deem necessary or desirable to consummate the transactions contemplated by this Agreement.

8. Conditions to Closing. (a) Each Party's Obligations. The respective obligations of each party hereto to effect the transactions contemplated hereby is subject to the satisfaction or waiver as of the Closing of the following conditions:

(i) No statute, rule, regulation, executive order, decree, temporary restraining order, preliminary or permanent injunction or other order shall have been enacted, entered, promulgated, enforced or issued by any Governmental Entity and no other legal restraint or prohibition preventing the purchase and sale of the Shares or any of the other transactions contemplated by this Agreement shall be in effect.

(ii) The waiting period under the HSR Act, if applicable to the purchase and sale of the Shares, shall have expired or been terminated.

(iii) The Sellers, the Company, the Parent and the Buyer shall have filed all material applications, reports or other documents, given all material notices, met all material requirements, and received all material consents and approvals in connection with the consummation of the transactions sale of the Shares contemplated hereby.

(iv) The Buyer, the Escrow Agent and the Sellers shall have executed and delivered the Escrow Agreement.

(v) The Buyer and Zomil Realty, Inc., a Puerto Rico corporation ("Zomil"), shall have executed and delivered a real estate purchase agreement relating to the purchase of the assets identified in Schedule 8(a) hereto on the terms set forth on Schedule 7(e) hereto (the "Real Estate Purchase Agreement"); and all conditions precedent required to be fulfilled or waived prior to the consummation of the transactions contemplated in the Real Estate Purchase Agreement (including, if applicable, the execution of any long-term leases provided for therein as contemplated by Schedule 7(e) hereto) shall have been fulfilled or waived, as the case may be, and the transactions contemplated thereby shall be consummated concurrently with the Closing.

(vi) The Buyer and Zomil shall have executed and delivered a purchase and development agreement substantially in the form of Exhibit A hereto (the "Development Agreement").

(vii) All Non-Assumed Long-Term Debt of the Company shall be paid in full at the Closing as contemplated by Sections 2(a)(ii) and 6(i) of this Agreement and all liens securing such indebtedness shall be removed.

(viii) The parties shall have obtained the Additional Insurance.

(ix) Immediately prior to the Closing, the employment arrangement for Juan L. Cruz Rosario shall have been terminated.

(b) The Sellers' Obligations. The obligations of the Sellers to sell and deliver the Shares to the Buyer is subject to the satisfaction (or waiver by the Sellers) as of the Closing of the following additional conditions:

(i) The representations and warranties of the Parent and the Buyer made in this Agreement qualified as to materiality shall be true and correct, and those not so qualified shall be true and correct in all material respects, as of the date hereof and as of the time of the Closing as though made as of such time, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties qualified as to materiality shall be true and correct, and those not so qualified shall be true and correct in all material respects, on and as of such earlier date). The Parent and the Buyer shall have duly performed, complied with and satisfied in all material respects all covenants, agreements and conditions required by this Agreement to be performed, complied with or satisfied by the Parent and the Buyer by the time of the Closing. The Parent and the Buyer shall have delivered to the Sellers a certificate dated the Closing Date and signed by an officer of the Parent and the Buyer confirming the foregoing.

(ii) The personal guaranties of each of Mr. and Mrs. Juan L. Cruz Rosario, Mr. Milton Cruz and Ms. Zoraida Cruz Torres (the "Guarantors"), whereby the Guarantors agreed to guaranty the obligations up to the amount of $2,500,000 under the Citibank Loan, shall be terminated, and written evidence reasonably satisfactory to the Guarantors of such termination or assumption shall be supplied to the Representatives.

(c) The Buyer's Obligations. The obligations of the Buyer to purchase the Shares from the Sellers is subject to the satisfaction (or waiver by the Buyer) as of the Closing of the following additional conditions:

(i) The representations and warranties of the Sellers made in this Agreement shall be true and correct in all material respects, as of the date hereof and as of the time of the Closing as though made as of such time, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties shall be true and correct in all material respects, on and as of such earlier date). The Sellers shall have duly performed, complied with and satisfied in all material respects all covenants, agreements and conditions required by this Agreement to be performed, complied with or satisfied by the Sellers by the time of the Closing. Each Seller shall have delivered to the Parent and the Buyer a certificate dated the Closing Date and signed by such Seller confirming the foregoing.

(ii) Except as caused solely by any change in the relevant market conditions and prospects and for those matters set forth on Schedule 3(h) hereto, for which the Parent and the Buyer shall assume all risk, there shall have been no material adverse change since June 30, 1997 in the financial condition, business or affairs of the Company and its Subsidiaries taken as a whole; and the Company and its Subsidiaries taken as whole shall not have suffered any material loss (whether or not insured) by reason of physical damage caused by fire, earthquake, accident or other calamity which substantially affects the value of its assets, properties or business the insurance proceeds related to which are not, in the reasonable opinion of the Parent and the Buyer, adequate to repair such damage and compensate for any lost business related thereto. The Buyer shall have received a certificate of the Sellers dated the Closing Date that the statements set forth in this Section 8(c)(ii) are true and correct.

(iii) No Seller shall have defaulted in its obligation to sell or deliver such Seller's Shares to the Buyer.

(iv) The Company shall have waived its rights under Article Eight of the Company's Certificate of Incorporation prior to the Closing.

(v) On or prior to the Closing, the Sellers (at their sole cost and expense) shall provide to the Buyer (A) a standard ALTA fee owner's title insurance policies (the "Title Policies") insuring title to each parcel of the Real Property in the Buyer as prospective fee owner, subject only to the Permitted Encumbrances, in the aggregate amount of $100 million and (B) surveys of the Real Property made by a registered land surveyor bearing a certificate addressed to the Buyer and the title company, signed by the surveyor, certifying that the survey was actually made on the ground and that there are no encumbrances except as shown, complying with the minimum detail requirements for ALTA/ACSM and land title surveys as adopted by the American Land Title Association and the American Congress on Surveying and Mapping 1992 and providing sufficient detail to provide the basis for the title company to issue the Title Policies without the general exception for survey matters. The Sellers shall be entitled to any credit received for existing policies and surveys.

(vi) The Company shall have delivered to the Buyer a copy of the audited balance sheet of the Company (on a consolidated basis) as of, and the audited statement of income of the Company (on a consolidated basis) for the twelve month period ended, September 30, 1997 (the "Audited 1997 Financial Statements"); and there shall not be any material adverse change in the financial condition of the Company reflected in the Audited 1997 Financial Statements from the draft of such statements made available to the Parent on or prior to the date of this Agreement.

(d) Frustration of Closing Conditions. Neither any Seller nor the Parent or the Buyer may rely on the failure of any condition set forth in Section 8(a), Section 8(b) or

Section 8(c), respectively, to be satisfied if such failure was caused by such party's failure to act in good faith or to use its best efforts to cause the Closing to occur as required by Section 7(a).

9. Indemnification. (a) Tax Indemnification. The Sellers shall severally indemnify the Parent and the Buyer and their affiliates (including the Company and its Subsidiaries) and each of their respective directors, officers, employees, stockholders, agents and other representatives against and hold them harmless from (i) any liability for Taxes of the Company or its Subsidiaries for any Pre-Closing Tax Period (except to the extent such taxable period began before and continues after the Closing Date, in which case such indemnity will cover only that portion of any such Taxes that are for the Pre-Closing Tax Period), (ii) any liability for Taxes of the Sellers and (iii) any liability for reasonable legal, accounting, appraisal, consulting or similar fees and expenses for any item attributable to any item in clause (i) or (ii) above (collectively, a "Tax Loss"). The Seller's indemnification obligations under this Section 9(a) shall be limited to the excess of amounts reserved (if any) for payment of Taxes set forth in the Closing Balance Sheet. The Parent and the Buyer shall, and after the Closing shall cause the Company and its Subsidiaries to, jointly and severally indemnify each Seller and its affiliates and each of their respective employees, agents and representatives against and hold them harmless from any liability for Taxes and other Tax Losses of the Company or its Subsidiaries for any taxable period ending after the Closing Date (except to the extent such taxable period began before the Closing Date, in which case such indemnity will cover only that portion of any such Taxes that are not for the Pre-Closing Tax Period). In the case of any taxable period that includes (but does not begin or end on) the Closing Date (a "Straddle Period"):

(A) Notwithstanding the assessment date, real property, personal property and municipal license taxes (collectively, the "Special Taxes") of the Company and its Subsidiaries for any Pre-Closing Tax Period (other than Taxes imposed in connection with the sale of the Shares or otherwise in connection with this Agreement, or the transactions contemplated hereby) shall be equal to the amount of such Special Taxes for the fiscal year (or semester, if applicable) to which they relate multiplied by a fraction the numerator of which is the number of days that have elapsed during the particular fiscal year (or semester, if applicable) that are in the Pre-Closing Tax Period and the denominator which is 365 (or 182 in the case of a semester); and

(B) the Taxes of the Company or its Subsidiaries (other than the Special Taxes) for the Pre-Closing Tax Period (other than Taxes imposed in connection with the sale of the Shares or otherwise in connection with this Agreement or the transactions contemplated hereby) shall be computed as if such taxable period ended as of the close of business on the Closing Date. The indemnification obligations of the Sellers in respect of Taxes for a Straddle Period shall equal the excess of (x) such Taxes for the Pre-Closing Tax Period over (y) the sum of (I) the amount of such Taxes for the Pre-Closing Tax Period paid by the Sellers or any of their affiliates (other than the Company) at any time and (II) the amount of such Taxes paid by the

Company or its Subsidiaries on or prior to the Closing Date and, as provided in Section 9(a) above, shall be limited to the excess of amounts reserved (if any) for payment of Taxes set forth in the Closing Balance Sheet. The Sellers shall initially pay such excess to the Buyer five days prior to the date on which the Tax Return (including any Tax Return with respect to estimated Taxes) with respect to the liability for such Taxes is required to be filed (and if no such Tax Return is required to be filed, five days prior to the date satisfaction of the Tax liability is required by the relevant taxing authority). The payments to be made pursuant to this paragraph by the Sellers with respect to a Straddle Period shall be appropriately adjusted to reflect any final determination (which shall include the execution of Department of the Treasury Model Form SC 2845 or any successor form) with respect to Taxes for the Straddle Period. The indemnification obligations of the Sellers provided under this Section 9(a) shall terminate when the applicable statute of limitations has expired.

(b) General Indemnification by the Sellers. The Sellers, severally, shall indemnify the Parent and the Buyer and hold them harmless from any loss, liability, claim, damage or expense (including reasonable legal fees and expenses) (collectively, a "Loss") suffered or incurred by any such indemnified party (other than any relating to Taxes, for which indemnification provisions are set forth in Section 9(a)) arising from, relating to or otherwise in respect of (i) any failure of any representation or warranty of any of the Sellers contained in this Agreement which survives the Closing or in any certificate delivered pursuant hereto to be true and correct (provided, that with respect to the representations made in Sections 3(d), 3(i), 3(j), 3(n), 3(o), 3(p), 3(q), 3(r), 3(t) and 3(v) of this Agreement, such determination shall be made without regard to any reference as to "Material Adverse Effect" contained therein) and (ii) any breach of any covenant of any of the Sellers contained in this Agreement.

(c) General Indemnification by the Parent and the Buyer. The Parent and the Buyer shall, and shall cause the Company and its Subsidiaries to, jointly and severally, indemnify each Seller, its affiliates and each of their respective employees, agents and representatives against and hold them harmless from any Loss, suffered or incurred by any such indemnified party (other than any relating to Taxes, for which indemnification provisions are set forth in Section 9(a)) arising from, relating to or otherwise in respect of (i) any failure of any representation or warranty of the Parent or the Buyer contained in this Agreement which survives the Closing or in any certificate delivered pursuant hereto to be true and correct and (ii) any breach of any covenant of the Parent or the Buyer contained in this Agreement, including, but not limited to, Section 6(c).

(d) Losses Net of Insurance, etc. The amount of any Loss or Tax for which indemnification is provided under this Section 9 shall be net of (x) any amounts actually recovered or recoverable by the indemnified party under insurance policies or other reimbursement received or to be received from third parties and (y) any amounts reserved for on the Company's or its Subsidiaries' financial statements with respect to such Loss or Tax and shall

be (i) increased to take account of any net Tax cost incurred by the indemnified party arising from the receipt of indemnity payments hereunder (grossed up for such increase) and (ii) reduced to take account of any net Tax benefit realized by the indemnified party arising from the incurrence or payment of any such Loss. In computing the amount of any such Tax cost or Tax benefit, the indemnified party shall be deemed to recognize all other items of income, gain, loss, deduction or credit before recognizing any item arising from the receipt of any indemnity payment hereunder or the incurrence or payment of any indemnified Loss. Any indemnity payment under this Agreement shall be treated as an adjustment to the Purchase Price for Tax purposes, unless a final determination (which shall include the execution of a Department of the Treasury Model Form SC 2845 or successor form) with respect to the indemnified party or any of its affiliates causes any such payment not to be treated as an adjustment to the Purchase Price for Puerto Rico Tax purposes.

(e) Limitations on Indemnification Rights. (i) No claim for indemnification under Sections 9(a) or 9(b) may be made, and the Sellers shall not have any liability:

(x) unless the aggregate of all Losses relating thereto for which the Sellers would, but for this clause (x), be liable exceeds on a cumulative basis an amount equal to $250,000 and, in such event, the Sellers shall be liable for all of such amount;

(y) for any and all Losses which, when aggregated with all previous Losses for which payment has been made under this Section 9, exceed $45 million, nor will any individual Seller have any liability for any and all such Losses in excess of each Seller's Pro Rata Portion of the Escrow Amount (except, in each case, as otherwise specifically provided in Section 9(e)(ii) below); and

(z) whatsoever for the matters contemplated by Section 3(j)(ix).

(ii) In the event that the Parent, the Buyer and/or any other person claiming a right to indemnification under this Section 9 through the Parent or the Buyer (together, a "Claimant") shall be entitled to, or claim to be entitled to, recover any amount pursuant to the indemnification provisions set forth in this Section 9, the Parent, the Buyer or such other party, as the case may be, shall look only to the Escrow Amount and shall not seek to recover any amount directly from any of the Sellers, except for Losses in Excess of the Escrow Amount arising from claims made for breach of the representation set forth in (x) Section 3(b) of this Agreement, in which case a Claimant may seek to recover from the Seller responsible for the breach any such additional losses, and (y) Section 3(e) of this Agreement, in which case a Claimant may seek from the Sellers, severally but not jointly, any such additional Losses.

(iii) The Parent and the Buyer acknowledge and agree that, from and after the Closing, the sole and exclusive remedy with respect to any and all claims relating to the subject matter of this Agreement (other than (x) claims of fraud in connection with the transactions provided for under this Agreement and (y) claims arising specifically pursuant to the procedures set forth in Section 2(d) hereof in connection with determining any adjustment to the Purchase Price required thereunder) shall be pursuant to the indemnification provisions set forth in this Section 9. As used in this Section 9(e)(iii), the term "fraud" shall not include or extend to Losses relating from claims of noncompliance with the antifraud and abuse provisions of Medicare, Medicaid and other similar applicable laws, which matters the parties agree are addressed generally by Section 3(p) hereof.

(f) Procedures Relating to Indemnification. (i) All claims under Section 9(b) or 9(c) other than Third Party Claims (as defined in Section 9(f)(ii)) shall be governed by Section 9f(iii). All Tax Claims (as defined in Section 9(f)(iv)) shall be governed by Section 9f(v).

(ii) In order for a party (the "indemnified party") to be entitled to any indemnification provided for under this Agreement (other than under Section 9(a)) in respect of, arising out of or involving a claim or demand made by any person against the indemnified party (a "Third Party Claim"), such indemnified party must notify the indemnifying party in writing, and in reasonable detail, of the Third Party Claim within 10 business days after receipt by such indemnified party of written notice of the Third Party Claim; provided, however, that failure to give such notification shall not affect the indemnification provided hereunder except to the extent the indemnifying party shall have been actually prejudiced as a result of such failure (except that the indemnifying party shall not be liable for any expenses incurred during the period in which the indemnified party failed to give such notice). Thereafter, the indemnified party shall deliver to the indemnifying party, within 5 business days after the indemnified party's receipt thereof, copies of all notices and documents (including court papers) received by the indemnified party relating to the Third Party Claim.

If a Third Party Claim is made against an indemnified party, the indemnifying party shall be entitled to participate in the defense thereof and, if it so chooses and acknowledges its obligation to indemnify the indemnified party therefor, to assume the defense thereof with counsel selected by the indemnifying party; provided that such counsel is not reasonably objected to by the indemnified party. Should the indemnifying party so elect to assume the defense of a Third Party Claim, the indemnifying party shall not be liable to the indemnified party for legal expenses subsequently incurred by the indemnified party in connection with the defense thereof. If the indemnifying party assumes such defense, the indemnified party shall have the right to participate in the

defense thereof and to employ counsel, at its own expense, separate from the counsel employed by the indemnifying party, it being understood that the indemnifying party shall control such defense. The indemnifying party shall be liable for the fees and expenses of counsel employed by the indemnified party for any period during which the indemnifying party has failed to assume the defense thereof (other than during the period prior to the time the indemnified party shall have given notice of the Third Party Claim as provided above).

If the indemnifying party so elects to assume the defense of any Third Party Claim, all of the indemnified parties shall cooperate with the indemnifying party in the defense or prosecution thereof. Such cooperation shall include the retention and (upon the indemnifying party's request) the provision to the indemnifying party of records and information which are reasonably relevant to such Third Party Claim, and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. Whether or not the indemnifying party shall have assumed the defense of a Third Party Claim, the indemnified party shall not admit any liability with respect to, or settle, compromise or discharge, such Third Party Claim without the indemnifying party's prior written consent (which consent shall not be unreasonably withheld). If the indemnifying party shall have assumed the defense of a Third Party Claim, the indemnified party shall agree to any settlement, compromise or discharge of a Third Party Claim which the indemnifying party may recommend and which by its terms obligates the indemnifying party to pay the full amount of the liability in connection with such Third Party Claim, which releases the indemnifying party completely in connection with such Third Party Claim and which would not otherwise adversely affect the indemnified party.

Notwithstanding the foregoing, the indemnifying party shall not be entitled to assume the defense of any Third Party Claim (and shall be liable for the reasonable fees and expenses of counsel incurred by the indemnified party in defending such Third Party Claim) if the Third Party Claim seeks an order, injunction or other equitable relief or relief for other than money damages against the indemnified party which the indemnified party reasonably determines, after conferring with its outside counsel, cannot be separated from any related claim for money damages. If such equitable relief or other relief portion of the Third Party Claim can be so separated from that for money damages, the indemnifying party shall be entitled to assume the defense of the portion relating to money damages. The indemnification required by Section 9(b) and 9(c) shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or loss, liability, claim, damage or expense is incurred.

(iii) In the event any indemnified party should have a claim against any indemnifying party under Section 9(b) or 9(c) that does not involve a Third Party

Claim being asserted against or sought to be collected from such indemnified party, the indemnified party shall deliver notice of such claim with reasonable promptness to the indemnifying party. The failure by any indemnified party so to notify the indemnifying party shall not relieve the indemnifying party from any liability which it may have to such indemnified party under Section 9(b) or 9(c), except to the extent that the indemnifying party demonstrates that it has been materially prejudiced by such failure. If the indemnifying party does not notify the indemnified party within 90 calendar days following its receipt of such notice that the indemnifying party disputes its liability to the indemnified party under Section 9(b) or 9(c), such claim specified by the indemnified party in such notice shall be conclusively deemed a liability of the indemnifying party under Section 9(b) or 9(c) and the indemnifying party shall pay the amount of such liability to the indemnified party on demand or, in the case of any notice in which the amount of the claim (or any portion thereof) is estimated, on such later date when the amount of such claim (or such portion thereof) becomes finally determined. If the indemnifying party has timely disputed its liability with respect to such claim, as provided above, the indemnifying party and the indemnified party shall proceed in good faith to negotiate a resolution of such dispute and, if not resolved through negotiations, such dispute shall be resolved by litigation in an appropriate court of competent jurisdiction.

(iv) If a claim shall be made by any taxing authority, which, if successful, might result in an indemnity payment to the Buyer, one of its affiliates or any of their respective directors, officers, employees, stockholders, agents or representatives pursuant to Section 9(a), then the Parent or the Buyer shall give notice to the Representatives in writing of such claim (a "Tax Claim") and of any counterclaim the Buyer proposes to assert.

With respect to any Tax Claim relating to a taxable period ending on or prior to the Closing Date, the Representatives (on behalf of themselves and each of the other Sellers) shall control all proceedings and may make all decisions taken in connection with such Tax Claim (including selection of counsel) and, without limiting the foregoing, may in their sole discretion pursue or forego any and all administrative appeals, proceedings, hearings and conferences with any taxing authority with respect thereto, and may, in their sole discretion, either pay the Tax and sue for a refund where applicable law permits such refund suits or contest the Tax Claim in any permissible manner.

The Representatives (on behalf of themselves and each of the other Sellers) and the Buyer shall jointly control and participate in all proceedings taken in connection with any Tax Claim relating to Taxes of the Company or its Subsidiaries for a Straddle Period. Neither the Representatives nor the Buyer shall settle any such Tax Claim relating to a Straddle Period without the prior written consent of the other.

The Buyer shall control all proceedings with respect to any Tax Claim relating to a taxable period beginning after the Closing Date. None of the Sellers shall have any right to participate in the conduct of any such proceeding.

The Buyer shall, and shall cause the Company, its Subsidiaries and each of their affiliates, on the one hand, to, and each Seller and its affiliates, on the other hand, shall, reasonably cooperate in contesting any Tax Claim, which cooperation shall include the retention and, upon request, the provision to the requesting person of records and information which are reasonably relevant to such Tax Claim, and making employees available on a mutually convenient basis to provide additional information or explanation of any material provided hereunder or to testify at proceedings relating to such Tax Claim.

(g) Proportional Obligations of the Sellers. Notwithstanding anything to the contrary in this Agreement (i) the indemnification and purchase price adjustment obligations of the Sellers pursuant to this Agreement (other than (x) indemnification obligations for breaches of a Seller's individual representations and covenants set forth in Sections 3(a), 3(b), 3(w) and 5 which shall be the sole obligation of the particular Seller, and (y) indemnification obligations pursuant to Section 2(b) hereof) shall be borne severally by each of the Sellers based upon their respective Pro Rata Portion and (ii) no Seller shall be liable for any such obligations (other than pursuant to Section 2(b) hereof) for any amount under this Agreement in excess of the amount of the Seller's Pro Rata Portion of the Purchase Price hereunder.

10. Tax Matters. (a) The Parent and the Buyer shall be responsible for, and shall have ultimate discretion with respect to, (i) all Tax Returns required to be filed by the Company and its Subsidiaries with respect to periods that begin on or after the Closing Date and (ii) the Straddle Tax Returns, if any, and (iii) any Audit (including the execution of any waiver of limitation with respect to any Audit) relating to any such Tax Returns; provided, however, that (x) in the case of any Straddle Tax Return, the preparation and filing of such Return shall be subject to review and approval of the Representatives, and (y) in the event that any Audit for which the Parent and the Buyer are responsible pursuant to this Section 10(a) could reasonably be expected to result in a material increase in Tax liability for which the Sellers would be liable, the Parent and the Buyer shall consult in good faith with the Representatives with respect of the specific issues that could give rise to such increased Tax liability. For any taxable period of the Company and its Subsidiaries that ends on or before the Closing Date, the Sellers shall timely prepare and file with the appropriate taxing authorities all Tax Returns required to be filed, and shall pay all Taxes due with respect to such Tax Returns; provided, however, that no such Tax Return shall be filed without the prior written consent of the Buyer. The Buyer and the Sellers agree to cause the Company and its Subsidiaries to file

all Tax Returns for the taxable period including the Closing Date on the basis that the relevant taxable period ended as of the close of business on the Closing Date, unless the relevant taxing authority will not accept a Tax Return filed on that basis.

(b) The Representatives shall, and shall cause the Sellers to, and the Parent shall and the Buyer shall and shall cause the Company and its Subsidiaries to, reasonably cooperate, and shall cause their respective affiliates, officers, employees, agents, auditors and other representatives reasonably to cooperate, in preparing and filing all Tax Returns and in resolving all disputes and audits with respect to all taxable periods relating to Taxes, including by maintaining and making available to each other all records necessary in connection with Taxes, *provided, however*, in no event shall the Buyer be required to provide any Tax Return to the Sellers. The Buyer and the Sellers recognize that the Sellers and their affiliates will need access, from time to time, after the Closing Date, to certain accounting and Tax records and information held by the Company and its Subsidiaries to the extent such records and information pertain to events occurring prior to the Closing Date; therefore, the Parent and the Buyer jointly and severally agree, and agree after the Closing to cause the Company and its Subsidiaries, to allow the Sellers and their agents and other representatives, at times and dates mutually acceptable to the parties, reasonable access to such records from time to time, during normal business hours and at the Sellers' expense.

(c) The amount or economic benefit of any refunds, credits or offsets of Taxes of the Company and its Subsidiaries for any taxable period ending on or before the Closing Date shall be for the account of the Sellers. Notwithstanding the foregoing, (i) any such refunds, credits or offsets of Taxes shall be for the account of the Buyer to the extent such refunds, credits or offsets of Taxes are attributable (determined on a marginal basis) to the carryback from a taxable period beginning after the Closing Date (or the portion of a Straddle Period that begins on the day after the Closing Date) of items of loss, deduction or credit, or other tax items, of the Company and its Subsidiaries (or any of their affiliates, including the Buyer) and (ii) to the extent the Buyer or the Company and its Subsidiaries pays after the Closing Date any amount with respect to Taxes for any such taxable period, refunds of such Taxes (determined on a first-in, first-out basis) shall be for the account of the Buyer. The amount or economic benefit of any refunds, credits or offsets of Taxes of the Company and its Subsidiaries for any taxable period beginning after the Closing Date shall be for the account of the Buyer. The amount or economic benefit of any refunds, credits or offsets of Taxes of the Company and its Subsidiaries for any Straddle Period shall be equitably apportioned between the Sellers on the one hand, and the Buyer, on the other hand. Each party shall forward, and shall cause its affiliates to forward, to the party entitled pursuant to this Section 10(c) to receive the amount or economic benefit of a refund, credit or offset to Tax the amount of such refund, or the economic benefit of such credit or offset to Tax, within 30 days after such refund is

received or after such credit or offset is allowed or applied against other Tax liability, as the case may be; *provided, however*, that any such amounts payable pursuant to this Section 10(c) shall be net of any Tax cost ant to this Section 10(c) and its affiliates attributable to the receipt of such refund, credit or offset to Tax and/or the payment of such amounts pursuant to this Section 10(c). The Buyer and the Sellers shall treat any amounts payable pursuant to this Section 10(c) as an adjustment to the Purchase Price unless a final determination (which shall include the execution of a Department of the Treasury Model From SC 2845 or successor form) causes any such payment not to be treated as an adjustment to the Purchase Price for Puerto Rico income Tax purposes.

(d) The Sellers shall file any amended or unitary Tax Returns for taxable years ending on or prior to the Closing Date which are required as a result of examination adjustments made by the Secretary for such taxable years as finally determined; *provided, however*, that no such Tax Return shall be filed without the prior written consent of the Buyer, which consent shall not be unreasonably withheld.

(e) Each of the Parent, the Buyer and the Sellers shall promptly inform, keep regularly apprised of the progress with respect to, and notify the other party or parties in writing not later than (i) ten business days after the receipt of any notice of any Audit or (ii) fifteen business days prior to the settlement or final determination of any Audit for which it was responsible pursuant to Section 10 hereof which could affect the Tax liability of such other party for any taxable year.

11. *Termination*. (a) Anything contained herein to the contrary notwithstanding, this Agreement may be terminated and the transactions contemplated hereby abandoned at any time prior to the Closing Date:

(i) by mutual written consent of the Representatives and the Buyer;

(ii) by the Representatives, on the one hand, or the Parent and the Buyer, on the other hand, if the Closing does not occur on or prior to March 31, 1998; *provided, however*, that the right to terminate this Agreement pursuant to this Section 11(a)(ii) shall not be available to the Representatives, on the one hand, or the Parent and the Buyer, on the other hand, as the case may be, if the terminating party has failed to perform in any material respect any of its obligations under this Agreement; or

(iii) if any Governmental Entity shall have issued a judgment, order or decree or taken any other action permanently enjoining, restraining or otherwise prohibiting the purchase of the Shares or any of the other transactions contemplated by this Agreement, and such judgment, order or decree or other action shall have become final and nonappealable.

(b) In the event of termination by the Representatives or the Buyer pursuant to this Section 11, written notice thereof setting forth the reasons therefore shall forthwith be given to the other parties and the transactions contemplated by this Agreement shall be terminated, without further action by any party. If the transactions contemplated by this Agreement are terminated as provided herein: (i) the Parent and the Buyer shall return all documents and other materials received from the Sellers or the Company or its Subsidiaries relating to the transactions contemplated hereby, whether so obtained before or after the execution hereof, to the Representatives; and (ii) all confidential information received by the Parent and the Buyer with respect to the business of the Company and its Subsidiaries shall be treated in accordance with the Confidentiality Agreement, which shall remain in full force and effect notwithstanding the termination of this Agreement.

(c) If this Agreement is terminated and the transactions contemplated hereby are abandoned as described in this Section 11, this Agreement shall become void and of no further force or effect, except for the provisions of (i) Section 6(a) relating to the obligation of the Parent and the Buyer to keep confidential certain information and data obtained by them, (ii) Section 6(h) relating to the obligation of the Parent to guarantee the Buyer's obligations hereunder, (iii) Section 7(b) relating to publicity, (iv) this Section 11 and (v) Section 13 relating to certain expenses. Nothing in this Section 11 shall be deemed to release any party from any liability for any breach by such party of the terms and provisions of this Agreement or to impair the right of any party to compel specific performance by any other party of its obligations under this Agreement.

12. Survival of Representations and Warranties. The representations and warranties in this Agreement and in any certificate delivered pursuant hereto shall survive the Closing solely for purposes of Sections 9(b) and (c) and shall terminate at the close of business on the date which is two (2) years from the Closing Date, except as follows:

(a) in the case of Sections 3(i), 3(o), 3(s) and 4(f) such representations and warranties shall terminate when the applicable statute of limitations has expired; and

(b) in the case of Sections 3(b) and 3(e), such representations and warranties shall not terminate.

13. Expenses. Whether or not the transactions contemplated hereby are consummated, and except as otherwise specifically provided in this Agreement, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs or expenses, except that (a) all expenses (including, but not limited to, any downpayment, deposit or other

amount which may be subject to forfeiture) incurred by the Company or its affiliates related to the Fajardo Acquisition, if such transaction is not consummated by the Company or its Subsidiaries pursuant to the instructions of the Parent or the Buyer, shall be borne by the Parent or the Buyer and (b) all expenses related to obtaining (i) the Additional Insurance shall be borne as set forth in Section 7(g) and (ii) title insurance shall be borne as set forth in Section 8(c)(v).

14. Miscellaneous.

(a) No Third-Party Beneficiaries. This Agreement is for the sole benefit of the parties signatory hereto and their permitted assigns, and nothing herein expressed or implied shall give or be construed to give to any person, other than the parties signatory hereto and such assigns, any legal or equitable rights hereunder.

(b) Amendment or Waiver. No amendment, modification or waiver in respect of this Agreement shall be effective unless it shall be in writing and signed by the Buyer and the Representatives (on behalf of themselves and the other Sellers).

(c) Headings. The headings contained in this Agreement, or in any Exhibit or Schedule hereto and in the table of contents to this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

(d) Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more such counterparts have been signed by each of the parties and delivered to the other parties.

(e) Certain Additional Definitions. (i) For the purposes of this Agreement "to the knowledge of" shall mean to the actual knowledge of the Company's Chairman and President and (ii) the term "Agreement" shall mean this Stock Purchase Agreement plus the exhibits and schedules attached hereto.

(f) Assignment; Binding Effect. This Agreement and the rights and obligations hereunder shall not be assignable or transferable by any Seller or the Parent or the Buyer (including by operation of law in connection with a merger, or sale of substantially all the assets, or any dissolution, of the Parent or the Buyer or any Seller) without the prior written consent of the Parent or the Buyer or the Representatives (for themselves or on behalf of the other Sellers), as the case may be; provided, however, that the Buyer may (subject to Section 6(h)) assign its right to purchase the Shares hereunder to a wholly-owned subsidiary of the Parent without the prior written consent of any Seller

and any Seller may assign its right to sell the Shares owned by it to a duly organized and existing trust organized for the benefit of such Seller without the prior written consent of the Parent or the Buyer; _provided further, however_, that no assignment shall limit or affect the assignor's obligations hereunder. Any attempted assignment in violation of this Section 14(f) shall be void. Subject to the preceding sentence, this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

(g) _Notices_. All notices or other communications required or permitted to be given hereunder shall be in writing and shall be delivered by hand or sent by telecopy or sent, postage prepaid, by registered, certified or express mail or overnight courier service and shall be deemed given when so delivered by hand, or telecopied, or if mailed, three days after mailing (one business day in the case of express mail or overnight courier service), as follows:

(i) if to any of the Sellers, to the respective addresses noted on Schedule 1(a) hereto, with a copy to each of the Representatives, Juan L. Cruz Rosario and Milton Cruz, at the respective addresses noted on Schedule 1(a) hereto,

and a copy to:

Brown & Wood LLP
One World Trade Center
58th Floor
New York, New York 10048
Telecopy No.: (212) 839-5599
Attention: Lori Anne Czepiel, Esq.,

and a copy to:

Fiddler Gonzalez & Rodriguez LLP
Chase Manhattan Bank Building
Eighth Floor
San Juan, Puerto Rico 00918
Telecopy No.: (787) 754-7539
Attention: Rafael Cortes Dapena, Esq., and

(ii) if to the Parent or the Buyer,

Universal Health Services, Inc.
or
UHS of Puerto Rico, Inc.
c/o Universal Health Services, Inc.
Universal Corporate Center
367 South Gulph Road
King of Prussia, PA 19406
Telecopy No.: (610) 992-4566
Attention: General Counsel,

with a copy to:

Fulbright & Jaworski L.L.P.
666 Fifth Avenue
New York, NY 10103
Telecopy No: (212) 752-5958
Attention: Anthony Pantaleoni, Esq.,

or such other address as any party may from time to time specify by written notice to the other parties hereto.

(h) Entire Agreement. This Agreement, the Escrow Agreement and the Confidentiality Agreement contain the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersede all prior agreements and understandings relating to such subject matter. The parties hereto shall not be liable or bound to any other party in any manner by any representations, warranties or covenants relating to such subject matter except as specifically set forth herein, in the Escrow Agreement or in the Confidentiality Agreement. Without limiting the generality of the foregoing, and notwithstanding any otherwise express representations and warranties made by the Sellers herein, the Sellers make no representation or warranty to the Parent and the Buyer with respect to: (i) Fajardo; (ii) Arecibo Surgical Center; (iii) items set forth in Section 3(j)(ix) hereto; (iv) any projections, estimates or budgets heretofore delivered to or made available to the Parent and the Buyer of future revenues, expenses or expenditures or future results of operations of the Company or its Subsidiaries; or (v) except as expressly covered by a representation and warranty contained in Section 3 hereof, any other information or documents (financial or otherwise) made available to the Parent and the Buyer or their counsel, accountants or advisers with respect to the Company.

(i) Severability. If any provision of this Agreement (or any portion thereof) or the application of any such provision (or any portion thereof) to any person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof (or the remaining portion thereof) or the application of such provision to any other persons or circumstances.

(j) Interpretation. In this Agreement, unless the context otherwise requires, words describing the singular number shall include the plural and vice versa, and words denoting any gender shall include all genders and words denoting natural persons shall include corporations and partnerships and vice versa.

(k) Consent to Jurisdiction. The Parent, the Buyer and the Sellers irrevocably submit to the exclusive jurisdiction of the Federal District Court for the District of Puerto Rico for the purposes of any suit, action or other proceeding arising out of this Agreement, the Escrow Agreement or any transaction contemplated hereby or thereby or, if such suit, action or other proceeding may not be brought in such Federal court for jurisdictional reasons, then in the Court of First Instance of the Commonwealth of Puerto Rico. The Parent, the Buyer and the Sellers agree to commence any action, suit or proceeding relating hereto in the Federal District Court for the District of Puerto Rico or, if such suit, action or other proceeding may not be brought in such Federal court for jurisdictional reasons, then in the Court of First Instance of the Commonwealth of Puerto Rico. The Parent, the Buyer and the Sellers further agree that service of any process, summons, notice or document by registered mail to such party's respective address set forth above shall be effective service of process for any action, suit or proceeding in Puerto Rico with respect to any matters to which it has submitted to jurisdiction in this Section 14(k). The Parent, the Buyer and the Sellers irrevocably and unconditionally waive any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the Escrow Agreement or the transactions contemplated hereby or thereby in the Federal District Court for the District of Puerto Rico (or, if unavailable as set forth above, then in the Court of First Instance of the Commonwealth of Puerto Rico) and hereby further irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

(l) Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the Commonwealth of Puerto Rico.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first written above.

UNIVERSAL HEALTH SERVICES, INC.	UHS OF PUERTO RICO, INC.
By: /s/ RICHARD C. WRIGHT	By: /s/ RICHARD C. WRIGHT
Name: Richard C. Wright	Name: Richard C. Wright
Title: Vice President	Title: Vice President

STOCKHOLDERS:	SPOUSES OF STOCKHOLDERS, AS APPLICABLE:
/s/ RAFAEL A. BRITO ARACHE	/s/ CARMEN N. BRITO
Rafael A. Brito Arache	Carmen M. Brito
/s/ FRANCISCO ARRIETA	/s/ LYDIA R. ARRIETA
Francisco Arrieta	Lydia R. Arrieta
/s/ ANA MARIA CADILLA	N/A
Ana Maria Cadilla	N/A
/s/ JOSE A. SOBRINO-CATONI	/s/ MARIA A.N. SOBRINO
Jose A. Sobrino-Catoni	Maria A.N. Sobrino
/s/ IGNACIO ECHENIQUE	/s/ MARY ELLEN C. ECHENIQUE
Ignacio Echenique	Mary Ellen C. Echenique
/s/ VICTOR GONZALEZ	/s/ MARIA N.E. GONZALEZ
Victor Gonzalez	Maria N.E. Gonzalez
/s/ OCTAVIO JORDAN	N/A
Octavio Jordan	N/A

/s/ FERNANDO L. LONGO	/s/ CONCEPCION Q. LONGO
Fernando L. Longo	Concepcion Q. Longo
/s/ PEDRO M. MAYOL	/s/ NOHEMI U. MAYOL
Pedro M. Mayol	Nohemi U. Mayol
/s/ ANGEL OQUENDO	/s/ MARIA DEL C.V. OQUENDO
Angel Oquendo	Maria del C.V. Oquendo
/s/ ISABEL OYOLA	N/A
Isabel Oyola	N/A
/s/ WILLIAM MIRANDA-REYES	/s/ NELLY C. MIRANDA
William Miranda-Reyes	Nelly C. Miranda
/s/ HECTOR L. RIVERA (IRA)	N/A
Hector L. Rivera	N/A
/s/ JUAN L. CRUZ-ROSARIO	/s/ PETRITA T. CRUZ
Juan L. Cruz-Rosario	Petrita T. Cruz
/s/ JOSE A. SEGARRA	/s/ MABEL G. SEGARRA
Jose A. Segarra	Mabel G. Segarra
/s/ JULIO E. SIMONS	/s/ JANET G. SIMONS
Julio E. Simons	Janet G. Simons
/s/ JOSE J. RIVERA-VALDES	/s/ TERESITA O. RIVERA

Jose J. Rivera-Valdes

/s/ JOSE F. GUZMAN-VIRELLA

Jose F. Guzman-Virella

/s/ RODOLFO A. CATINCHI

Rodolfo A. Catinchi, as Trustee
for Maria T. Mella Catinchi

/s/ RODOLFO A. CATINCHI

Rodolfo A. Catinchi, as Trustee
for Juan R. Mella Catinchi

Teresita O. Rivera

/s/ FRANCES C. GUZMAN

Frances C. Guzman

Estate of Anthony Mark

By: /s/ ELIZABETH VIVERITO

Name: Elizabeth Viverito
Title: Authorized Representative

By and Further Acknowledged By the
Following Beneficiaries of the Estate:

/s/ ELIZABETH VIVERITO

Elizabeth Viverito

/s/ ANTHONY MARK

Anthony Mark

/s/ MELISSA MARK

Melissa Mark

/s/ RANDOLF MARK

Randolf Mark

/s/ JUDITH I. MARK

Judith I. Mark

Exhibit 10.30

VALLEY/DESERT CONTRIBUTION AGREEMENT

Table of Contents

		Page No.
1.	Contribution of Assets	2
1.1	Creation of Subsidiaries; Agreement to Contribute; and Merger	2
1.2	Excluded Assets	4
1.3	Contract Assignments	5
1.4	Instruments of Conveyance	6
1.5	Consideration; Working Capital Shortage/Overage	6
1.6	Liabilities Assumed	8
1.7	Liabilities Not Assumed	8
1.8	Closing	10
2.	Representations and Warranties of Parties	11
2.1	Existence; Good Standing; Corporate Authority	11
2.2	Authorization; Validity and Effect of Agreements	11
2.3	Subsidiaries	12
2.4	Capitalization	13
2.5	Records	13
2.6	Financial Statements	13
2.7	Absence of Undisclosed Liabilities	14
2.8	Absence of Certain Changes or Events Since the Date of the Balance Sheets	14
2.9	Taxes	16
2.10	Real Property	16
2.11	Title to Property and Assets; Sufficiency of Facilities Assets	18
2.12	Condition of Property	19
2.13	List of Contracts and Other Data	19
2.14	No Breach or Default	21
2.15	Labor Controversies	21
2.16	Litigation	21
2.17	Patents; Trademarks, Etc	22
2.18	Licenses; Permits; Authorizations	22
2.19	Compliance with Applicable Law; Environmental Laws	22
2.20	Employee Benefit Plans; Employees and Employee Relations	25
2.21	Adverse Agreements; No Adverse Change	26
2.22	Trade Notes and Accounts Receivable; Trade Accounts Payable; Prepaid Contracts	26
2.23	Inventories and Supplies	27
2.24	Illegal Payments	27
2.25	Insurance Policies	27

2.26 Professional Staff, Medicare, Medicaid and Other Health Care Programs........ 28
2.27 Facility Surveys........ 29
2.28 Related Party Transactions........ 29
2.29 No Brokers........ 29
2.30 No Misrepresentation or Omission........ 29

3. [Intentionally Omitted]........ 30

4. Covenants of the Parties........ 30
4.1 Access to Facilities and Additional Information........ 30
4.2 Operations........ 30
4.3 Negative Covenants........ 31
4.4 Governmental Approvals........ 32
4.5 Insurance Ratings........ 32
4.6 Employees; Employee Benefit Plans........ 32
4.7 Further Acts and Assurances........ 33
4.8 Summerlin Transaction........ 33
4.9 Additional Properties and Assets........ 34

5. Matters Pertaining to the Company........ 34
5.1 Employee Matters........ 34
5.2 Further Acts and Assurances........ 34

6. Conditions of Closing........ 35
6.1 Conditions of Closing........ 35

7. Nature and Survival of Representations and Warranties; Indemnification........ 38
7.1 Events of Default........ 38
7.2 Survival of Representations, Etc........ 38
7.3 Indemnification........ 38
7.4 Representation, Cooperation and Settlement........ 39

8. Transactions Subsequent to the Closing Date........ 40
8.1 Access to Records........ 40
8.2 Litigation Cooperation........ 40

9. Termination........ 41
9.1 Methods of Termination........ 41
9.2 Procedure Upon Termination........ 41

10. Miscellaneous........ 41
10.1 Notice........ 41
10.2 Execution of Additional Documents........ 43
10.3 Waivers and Amendment........ 43

10.4 Expenses.. 44
10.5 Occurrence of Conditions Precedent.............................. 44
10.6 Confidentiality Obligations; Public Announcements............... 44
10.7 Binding Effect; Benefits.. 45
10.8 Entire Agreement.. 45
10.9 Governing Law... 45
10.10 Counterparts... 45
10.11 Headings... 45
10.12 Incorporation of Exhibits and Schedules........................ 45
10.13 Severability... 46
10.14 Assignability.. 46

Joinder Agreement - Universal Health Services, Inc................... 48
Joinder Agreement - Quorum Health Group, Inc......................... 49

VALLEY/DESERT CONTRIBUTION AGREEMENT

This Agreement (the "Agreement") is dated this 30th day of January, 1998, by and among VALLEY HOSPITAL MEDICAL CENTER, INC., a Nevada corporation ("Valley") and NC-DSH, INC., a Nevada corporation ("Desert Springs")(Valley and Desert Springs are sometimes hereinafter referred to collectively as the "Parties" and individually as a "Party").

WITNESSETH:

WHEREAS, Valley owns all of the right, title and interest in and to certain assets used to operate Valley Hospital Medical Center and certain related businesses operated by Valley in and around Las Vegas, Nevada (collectively, the "UHS Facilities"); and

WHEREAS, Desert Springs owns all of the right, title and interest in and to certain assets used to operate Desert Springs Hospital and certain related businesses operated by Desert Springs in and around Las Vegas, Nevada (collectively, the "Quorum Facilities"); and

WHEREAS, the Parties desire to combine the UHS Facilities and the Quorum Facilities and operate such combined facilities as a limited liability company pursuant to the Limited Liability Company Act as enacted in the State of Delaware (the "LLC Act"); and

WHEREAS, pursuant to the terms of this Agreement Valley desires to contribute the UHS Facilities in exchange for a seventy-two and one-half percent (72.5%) membership interest in such limited liability company; and

WHEREAS, pursuant to the terms of this Agreement Desert Springs desires to contribute the Quorum Facilities in exchange for a twenty-seven and one-half percent (27.5%) membership interest in such limited liability company; and

WHEREAS, the Parties desire to enter into this Agreement for the purpose of setting forth their respective rights and obligations as hereinafter set forth.

NOW, THEREFORE, in consideration of the premises, the provisions and the respective agreements hereinafter set forth, the Parties, intending to be legally bound hereby, agree as follows:

1. CONTRIBUTION OF ASSETS.

1.1 CREATION OF SUBSIDIARIES; AGREEMENT TO CONTRIBUTE; AND MERGER. On or prior to the Closing Date (as hereinafter defined) Valley shall create Valley Health System LLC, a wholly owned limited liability company ("Newco UHS-1") pursuant to the LLC Act and Desert Springs shall create Newco Q LLC, a wholly owned limited liability company ("Newco Q-1") pursuant to the LLC Act. Upon the terms and subject to the conditions set forth in this Agreement, on the Closing Date, Valley and Desert Springs shall contribute, convey, assign, transfer and deliver to Newco UHS-1 and Newco Q-1, respectively, all of their respective right, title and interest in and to the Facilities Assets (as defined below), except for the Excluded Assets (as hereinafter defined), free and clear of all liens, charges, claims, pledges, security interests and encumbrances of any nature whatsoever (collectively, "Liens"), except for Permitted Encumbrances (as hereinafter defined). Immediately following the contribution, conveyance, assignment, transfer and delivery of the Facilities Assets in accordance with the preceding sentence, Newco Q-1 shall be merged with and into Newco UHS-1 pursuant to the Agreement of Merger ("Agreement and Plan of Merger") attached hereto as Exhibit A (the "Merger"). Following the Merger, the separate corporate existence of Newco Q-1 shall cease and Newco UHS-1 shall continue as the surviving limited liability company (the "Company") with Valley owning a seventy-two and one-half percent (72.5%) membership interest in the Company and Desert Springs owning a twenty-seven and one-half percent (27.5%) membership interest in the Company. The "Facilities Assets" shall mean and include all those personal, tangible and intangible properties, and the real properties and improvements of the Parties used in connection with the operation of the UHS Facilities and the Quorum Facilities (collectively, the "Facilities") as set forth below, other than the Excluded Assets, including, without limitation,(i) the going concern value of the Facilities, if any, and (ii) the following:

(a) all fee or leasehold title to all real property, including the real property described in Schedule 2.10, which Schedule identifies the property as fee or leasehold, together with all improvements, buildings and fixtures located thereon or therein, including the Facilities and all construction in progress (such real properties owned in fee are hereafter collectively, the "Real Property");

(b) all equipment, computers, computer hardware and software (subject to any restrictions by the licensor on the assignment thereof), tools, supplies, furniture, vehicles and other tangible personal property and assets owned or leased by the Parties related to the Facilities as of the date of this Agreement, as such items may be modified prior to the Closing

Date in the ordinary course of business, and including without limitation those items set forth on Schedule 1.1(b);

(c) all items of inventory listed on the Balance Sheets (as hereinafter defined), as such items may be modified prior to the Closing Date in the ordinary course of business;

(d) all patients accounts, notes and other receivables, whether or not written off, or recorded or not recorded, exclusive of any third party cost report payables or receivables, petty cash and those prepaid expenses usable by the Company;

(e) all financial records located at the Facilities and all patient, medical staff, research and development, and other records (including equipment records, medical/ administrative libraries, medical records, documents, production reports and records, personnel records, catalogs, books, records, files, equipment logs and operating manuals) located at the Facilities or necessary for the operation of the Facilities;

(f) all of the Parties' interest in the Assumed Contracts, as defined in Section 1.3.1;

(g) all licenses, permits and other governmental approvals (including certificates of need), to the extent assignable, held or used by any of the Parties in connection with the ownership, development and operations of the Facilities (including any pending or approved governmental approvals regarding the Facilities);

(h) all marks, names, trademarks, service marks, patents, patent rights, assumed names, logos and copyrights used in the business of the Facilities;

(i) the interest in all property, real, personal or mixed, tangible or, to the extent assignable, intangible, arising or acquired in the ordinary and regular course of any of the Parties' business in connection with the Facilities between the date hereof and the Closing Date;

(j) all insurance proceeds (including applicable deductibles, copayments or self-insured requirements) arising in connection with damage to the Facilities occurring prior to the Closing Date, to the extent not expended for the repair or restoration of the Facilities;

(k) all assets included in the Balance Sheets generally as "inventories", "property, plant or equipment", and "other assets";

(l) all of the Parties' membership interests in Oasis Health System LLC (25% of which is currently owned by Valley and 50% of which is currently owned by Desert Springs); Desert Springs' 10.38% limited partnership interest in Valley View Surgery Center, L.P.; and Desert Springs' 40% partnership interest in Desert Surgery Center Limited Partnership;

(m) cash equal to the Working Capital Shortage (to be contributed by either Valley or Desert Springs under the terms of Section 1.5); and

(n) all of Desert Springs' right title and interest in and to the Plaza Surgery Center, Limited Partnership which is described in detail in Schedule 1.1(n); and

(o) all other property of every kind, character or description, to the extent assignable, owned by any of the Parties and used or held for use in the business of the Facilities, whether or not reflected on the Financial Statements (as hereinafter defined), located at the Facilities or necessary for the operation of the Facilities and whether or not similar to the things specifically set forth above, including the "Schwartz Sublease" (as defined in Section 6.1.14), except the Excluded Assets.

Except as expressly set forth in this Agreement, including the Schedules and Exhibits hereto, all of the Facilities Assets contributed by the Parties to Newco UHS-1 and Newco Q-1 shall be contributed on an "as is" basis.

1.2 EXCLUDED ASSETS. The following items are not part of the contributions contemplated hereunder and are excluded from the Facilities Assets (collectively, the "Excluded Assets");

(a) all of Valley's or any of its affiliates' right, title and interest in and to the following: Goldring Surgery Center, Universal Health Network, Nevada Radiation Oncology Center and the real estate located within a fifty (50) mile radius of Las Vegas, Nevada, all of which is described in detail on Schedule 1.2(a) hereof (collectively, the "UHS Excluded Businesses");

(b) all of the Parties' respective deferred taxes, and intercompany receivables;

(c) personnel records and any other records which either of the Parties is required by law to retain in its possession, but only to the extent such records are not necessary for the continued operation of the Facilities in the manner in which they are currently being operated;

(d) all claims for amounts due, or that may become due from Medicare, Medicaid or any other health care payment intermediary resulting from cost reports for periods through the Closing Date;

(e) all refunds relating to any federal, state, local or foreign taxes paid by, or on behalf or for the benefit of a Party or, to the extent they relate to the period prior to the Closing Date, the Facilities, whether received prior to or after the Closing Date;

(f) any proprietary information contained in either Party's employee or operation manuals;

(g) each Party's corporate and financial records;

(h) cash and cash equivalents; and

(i) any other assets expressly designated in Schedule 1.2(i) to this Agreement as Excluded Assets.

1.3 CONTRACT ASSIGNMENTS.

1.3.1 ASSIGNMENT OF INTEREST IN CONTRACTS. Except for intercompany and non-physician employment contracts, on the Closing Date and upon and subject to the terms and conditions set forth in this Agreement, the Parties shall transfer or cause to be transferred and assign or cause to be assigned to Newco UHS-1 and Newco Q-1, as the case may be, and Newco UHS-1 and Newco Q-1 shall assume and perform all of the Parties' interest in (including all rights, benefits and obligations) all commitments, contracts, leases, licenses, agreements and understandings, and all outstanding offers or solicitations to enter into any of the foregoing, including those described on Schedule 1.3.1 hereto (the "Assumed Contracts").

1.3.2 CONSENTS TO ASSIGNMENTS. Notwithstanding anything in this Agreement to the contrary, this Agreement shall not constitute an agreement to assign or transfer any of the Assumed Contracts or part thereof or right or benefit arising thereunder or resulting therefrom if an attempted assignment or transfer thereof, without the consent of a third party thereto, would constitute a breach thereof or in any way affect the rights of the Company following the Merger. If such consent is not obtained, or if an attempted assignment thereof would be ineffective or would affect the rights of the Company following the Merger, so that the Company would not in fact receive all such rights, Valley or Desert Springs, as the case may be, (i) shall cooperate with the Company in its request in endeavoring to obtain such consent promptly at no cost to the Company, and (ii) if any such consent is unobtainable, shall cooperate with the

Company in any reasonable arrangement (the "Assignment Substitute") designed to provide the Company the benefits under any such Assumed Contract or part thereof or any right or benefit arising thereunder or resulting therefrom, including enforcement for the benefit of the Company of any and all rights of Valley or Desert Springs against a third party arising out of the breach or cancellation by such third party or otherwise. Valley and Desert Springs shall, to the extent necessary, perform under the Assignment Substitute without a fee to the Company except the consideration being tendered hereunder.

1.4 INSTRUMENTS OF CONVEYANCE.

On the Closing Date, Valley shall deliver to Newco UHS-1 and Desert Springs shall deliver to Newco Q-1 such deeds (in the case of the real property and the improvements thereon described in Schedules 2.10 hereto, a special warranty deed or the equivalent thereof in use in accordance with local practice), bills of sale, endorsements, assignments and other good and sufficient instruments of conveyance and assignment, including the Schwartz Sublease as shall be effective to vest in Newco UHS-1 and Newco Q-1, as the case may be, all of the Parties' respective right, title and interest in and to the Facilities Assets, free and clear of all Liens except for the Permitted Encumbrances. Simultaneously with such delivery, the Parties will take all reasonable additional steps as may be necessary to put the Company, following the Merger, in possession of the Facilities Assets. The Parties shall pay all transfer costs, title insurance fees, recording fees and transfer or stamp taxes or similar charges payable by each of them respectively by reason of the contribution, conveyance, assignment, transfer and delivery hereunder of the Facilities Assets.

1.5 CONSIDERATION; WORKING CAPITAL SHORTAGE/OVERAGE.

1.5.1 In consideration of the transfer and conveyance of the Facilities Assets and the Merger, on the Closing Date the Parties acknowledge and agree that the Company shall issue membership interests in the Company as follows: (i) the Company shall issue a 72.5% membership interest in the Company to Valley and (ii) the Company shall issue a 27.5% membership interest in the Company to Desert Springs.

1.5.2 Within 45 days after the Closing Date, the Parties will determine the Working Capital Shortage to be paid to the Company by either Valley or Desert Springs or the Working Capital Overage to be retained by either Valley or Desert Springs. The Working Capital Shortage or Overage will be the amount necessary to make the Working Capital contributed by each Party equal that Party's percentage membership interest in the

Company. For example, if Valley contributed $7,250,000 in Working Capital to the Company on the Closing Date and Desert Springs contributed $2,550,000 in Working Capital to the Company on the Closing Date, then the Working Capital Shortage would be $200,000 to be paid to the Company by Desert Springs or the Working Capital Overage would be $527,272.72 which would be retained by Valley rather than contributed. The Working Capital Shortage shall be calculated and used unless Valley and Desert Springs shall agree to calculate and use the Working Capital Overage. For the sole purpose of determining the Working Capital Shortage or Overage, Working Capital will be defined as the sum of the following items that have been contributed to or assumed by the Company, all valued in accordance with generally accepted accounting principles, consistently applied (unless otherwise specified):

(a) patient accounts receivable, net of allowances for contractual adjustments and discounts and bad debts (computed on a basis consistent with historical practice) except that the allowance for bad debts will be equal to the amount of patient accounts receivable older than one hundred seventy-nine (179) days from discharge for inpatients or date of services for outpatients;

(b) plus inventories, based on a physical count at the Closing Date, priced at latest invoice cost, and including only those items and areas that have historically been counted;

(c) plus prepaid expenses, but only to the extent that they are usable by the Company;

(d) plus other receivables, net of allowances for uncollectibles;

(e) less trade accounts payable;

(f) less accrued compensation and related taxes thereon and related liabilities, including accrued vacation, sick leave payable in cash for reasons other than actual absence, paid time off, or the like;

(g) less other accrued liabilities and expenses;

(h) less the present value (computed using the prime rate as the discount factor) of remaining payments due under any capitalized lease included in the Assumed Contracts; and

(i) less any other liabilities assumed by the Company to the extent such liabilities are to be included on the balance sheet under generally accepted accounting principles.

Each of the Parties will work together in good faith to agree on adjustments to and the amount of Working Capital Shortage. No later than 45 days after the Closing Date, the Parties hereto shall prepare the "Final Closing Statement" reflecting the items listed above determined as set forth above. Any payment due on the Final Closing Statement shall be payable in cash, on or before the tenth day following the day the Final Closing Statement is agreed upon. If the Parties are unable to agree on the Final Closing Statement within the 45 day period, they shall appoint Coopers & Lybrand, a firm of independent certified public accountants of recognized national standing (the "Accountants"), to make such determination, which determination shall be final and binding on the Parties hereto for the purposes of this Agreement, and Valley and Desert Springs shall each pay one-half of the fee. Each Party represents that the Accountants are not its auditor.

1.6 LIABILITIES ASSUMED. In further consideration for the contribution of the Facilities Assets, on and as of the Closing Date, subject to the exclusion of liabilities described in Section 1.7 below, the Parties acknowledge and agree that Newco UHS-1, Newco Q-1 and the Company, following the Merger, shall assume and agree to pay, perform and discharge the following liabilities (collectively, the "Assumed Liabilities"):

(a) all current liabilities of the Parties (except for the current portion of long term debt, accrued interest, pension plan liabilities, employer benefit plan liabilities, intercompany liabilities and self-insurance costs);

(b) all obligations under the Assumed Contracts and under Section 4.6 hereof; and

(c) such other liabilities of the Parties which the Company agrees in writing at or prior to the Closing Date that the Company will assume, which liabilities are listed on Schedule 1.6(c).

1.7 LIABILITIES NOT ASSUMED. Newco UHS-1, Newco Q-1 and the Company, following the Merger, shall assume only those liabilities and obligations specified in Section 1.6 above. Without limiting the generality of the foregoing sentence, neither Newco UHS-1, Newco Q-1 nor the Company shall assume and each Party shall retain and be responsible for the following obligations and liabilities to the extent they relate to such Party (except to the extent reflected in the calculation of the Working Capital Shortage) (each reference in this Section 1.7 to a Party shall include such Party and its affiliates):

(a) any and all obligations for the payment of any long term debt existing at the Closing Date (including the

current portion thereof) relating to a Party and whether or not set forth on the Balance Sheets;

(b) any and all accrued interest through the Closing Date;

(c) liabilities or obligations of a Party arising under Medicare, Medicaid, Blue Cross or other comparable third party payor programs (the "Government Reimbursement Programs") for periods through the Closing Date and as a result of the consummation of the transactions contemplated herein, including reimbursement recapture or any other adjustments;

(d) liabilities or obligations for Taxes (as hereinafter defined) of a Party in respect of periods prior to the Closing Date or resulting from the consummation of the transactions contemplated;

(e) liabilities under any Employee Benefit Plan (as hereinafter defined) of a Party; and liabilities for any and all EEOC, wage and hour, unemployment compensation, employee medical or workers' compensation claims relating to periods prior to the Closing Date;

(f) except as provided in Section 4.6 below, liabilities or obligations for any and all workers' compensation, health, disability or other benefits due to or for the benefit of any employees of a Party (or their covered dependents);

(g) liabilities arising out of or in connection with claims, litigations or proceedings described in Section 2.16, and claims, litigations or proceedings (whether instituted prior to or after the Closing Date) for acts or omissions which allegedly occurred prior to or at the Closing Date;

(h) liabilities attributable to legal, accounting or brokerage fees, and similar costs incurred by a Party related to the contribution of any of the Facilities Assets;

(i) except as expressly set forth herein, liabilities arising from a Party's assignment and the Company's assumption of the Assumed Liabilities;

(j) liabilities for the payment by a Party of any deductibles, copayments or other self-insurance requirements relating to events occurring prior to the Closing Date;

(k) any and all liabilities respecting any intercompany transactions of the Parties, whether or not such transaction relates to the provision of goods and services, tax

sharing arrangements, payment arrangements, intercompany charges or balances, or the like;

(l) except for Assumed Liabilities, any and all actual or contingent liabilities or obligations of or demands upon a Party arising from acts or omissions of either of the Parties (actual or alleged) prior to the Closing Date;

(m) all liabilities arising out of or in connection with the existence of Materials of Environmental Concern (as hereinafter defined) upon, about, beneath or migrating to or from any of the Real Property on or before the Closing Date or the existence on or before the Closing Date of any Environmental Claim (as hereinafter defined) or any violation of any Environmental Laws (as hereinafter defined) pertaining to such Real Property or the operation of the Facilities by a Party or any other business operated therefrom;

(n) any liability which allegedly occurred out of any negligence, medical malpractice or similar acts or omissions which allegedly occurred prior to the Closing Date;

(o) sales, income, franchise, use and other taxes payable with respect to the business or operations of a Party through the Closing Date or the transactions contemplated hereby;

(p) except as expressly set forth herein, liabilities for rights or remedies claimed by third parties under any of the Assumed Liabilities which broaden or vary the rights and remedies such third parties would have had against either Party if the contribution of the Facilities Assets were not to occur; and

(q) liabilities on account of those liens or mortgages set forth on Schedule 1.7(q).
- - - ---------------

With respect to Subsection 1.7(m) above, for a period of five (5) years from and after the Closing Date, in the event that it cannot be proven that the event giving rise to a Subsection 1.7(m) liability occurred after the Closing Date then it shall be presumed to have occurred on or before the Closing Date and the Parties can rebut this presumption with a Phase I environmental study. From and after five (5) years following the Closing Date, the presumption shall shift and thereafter all events giving rise to a Subsection 1.7(m) liability shall be presumed to have occurred from and after the Closing Date.

1.8 CLOSING. The closing of the transactions provided herein will be accomplished by means of overnight courier delivery and facsimile transmission or by such other method as may be agreed upon by the Parties. Upon contribution of the Facilities Assets which shall be as of 11:59 p.m. Pacific Time on

January 31, 1998, and consummation of the Merger, the closing shall be deemed to be effective and shall be deemed to have occurred as of 12:01 a.m. Pacific Time on February 1, 1998 which is as of the date and time specified in the Agreement of Merger. Such date and time of effectiveness of the Merger is herein referred to as the "Closing Date".

2. REPRESENTATIONS AND WARRANTIES OF PARTIES. Each of Valley and Desert Springs hereby severally represent, warrant and agree as follows (it being understood and agreed that Valley is making the following representations and warranties solely with respect to the UHS Facilities and Newco UHS-1 and not with respect to any other Party or for the other Party's Facilities, and that Desert Springs is making the following representations and warranties solely with respect to the Quorum Facilities and Newco Q-1 and not with respect to any other Party or for the other Party's Facilities):

2.1 EXISTENCE; GOOD STANDING; CORPORATE AUTHORITY. Valley is a Nevada corporation duly organized, validly existing and in good standing under the laws of the State of Nevada. Desert Springs is a Nevada corporation duly organized, validly existing and in good standing under the laws of the State of Nevada. Each of the Parties has all requisite corporate power and authority to own its properties and carry on its business as now conducted. The copies provided to the other Party of the Articles of Incorporation and Bylaws of each of the Parties, all as amended to date, are complete and correct and presently in effect. No Party has failed to qualify in any jurisdiction in which property owned, leased or operated by it or the nature of the business conducted by it makes such qualification necessary and where the failure to so qualify would have a material adverse effect on it. No Party is in default with respect to any order of any court, governmental authority or arbitration board or tribunal to which it is a party or is subject.

2.2 AUTHORIZATION; VALIDITY AND EFFECT OF AGREEMENTS. The execution, delivery and performance of this Agreement and all agreements and documents contemplated hereby by such Party and the consummation by it of the transactions contemplated hereby, have been duly and effectively authorized by all necessary corporate action on its part. The execution, delivery and performance of the Agreement and Plan of Merger by Newco UHS-1 or Newco Q-1, as the case may be, and the consummation by it of the transactions contemplated thereby, have been duly and effectively authorized by all necessary corporate action on its part. This Agreement, and the Agreement and Plan of Merger, constitute, and all agreements and documents contemplated hereby or thereby when executed and delivered pursuant hereto will constitute the valid and legally binding obligations of such Party or Newco UHS-1 or Newco Q-1, as the case may be,

enforceable in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium or other similar laws of general application now or hereafter in effect relating to the enforcement of creditors' rights generally and except that remedies of specific performance, injunction and other forms of equitable relief are subject to certain tests of equity jurisdiction, equitable defenses and the discretion of the court before which any proceeding therefor may be brought. Except as set forth on Schedule 2.2 hereto, the execution and delivery of this Agreement by such Party, and the execution and delivery of the Agreement and Plan of Merger by Newco UHS-1 or Newco Q-1 does not and the consummation of the transactions contemplated hereby and thereby will not, except to the extent the same would not have a material adverse effect on it: (i) require the consent, approval or authorization of any person, corporation, partnership, joint venture or other business association or any governmental, public authority or accrediting body; (ii) violate, with or without the giving of notice or the passage of time, or both, any provisions of law or statute or any rule, regulation, order, award, judgment, or decree of any court or governmental authority applicable to such Party or Newco UHS-1 or Newco Q-1; (iii) result in the breach or termination of any term or provision of, or constitute a default under, or result in the acceleration of or entitle any party to accelerate (whether after the giving of notice or the lapse of time or both) any obligation under, or result in the creation or imposition of any lien, charge, pledge, security interest or other encumbrance upon any part of the property of such Party or Newco UHS-1 or Newco Q-1 pursuant to any provision of, any order, judgment, arbitration award, injunction, decree, indenture, mortgage, lease, license, lien, or other agreement or instrument to which such Party or Newco UHS-1 or Newco Q-1 is a party or by which it is bound, or violate any provision of the Bylaws or Articles of Incorporation of such Party, or the Certificate of Formation or Limited Liability Company Agreement of Newco UHS-1 or Newco Q-1 as amended to the date of this Agreement; or (iv) result in any suspension, revocation, impairment, forfeiture or nonrenewal of any License (as hereinafter defined) relating to the ownership and operation by such Party of health care facilities which are the subject of the transactions contemplated hereby, subject to the Company obtaining new Licenses for its operation of the Facilities.

2.3 SUBSIDIARIES. Except as set forth on Schedule 2.3, none of Valley or Desert Springs owns, directly or indirectly, any debt or equity securities issued by any other corporation, or any interest in any partnership, joint venture or other business enterprise. During the period between the effective time of its creation and the effective time of the contribution of assets to it described in Section 1.1 above,

neither Newco UHS-1 nor Newco Q-1 shall have conducted any business or incurred any liabilities.

2.4 CAPITALIZATION. The authorized capital stock of each of Valley and Desert Springs is set forth on Schedule 2.4, together with a list of the number of shares issued and outstanding and owned of record and beneficially by each of the shareholders. Except as set forth on Schedule 2.4, there are no outstanding or authorized rights, warrants, options, subscriptions, agreements or commitments of any character giving anyone any right to require such Party to sell or issue any capital stock or other securities, nor are there any voting trusts or any other agreements or understandings with respect to the voting common stock of such Party.

2.5 RECORDS. The books, records and work papers of such Party will be made available to the other Party for inspection prior to the Closing Date and will contain the minutes of all meetings of directors and of shareholders and unanimous written consents reflecting all actions taken by the directors or shareholders without a meeting, have been maintained in accordance with good business practice and accurately reflect the basis for the financial condition and results of operations of such Party set forth in the financial statements referred to in Section 2.6 hereof except to the extent the same would not have a material adverse effect on it.

2.6 FINANCIAL STATEMENTS. Such Party has furnished true, complete and correct copies of: (i) with respect to Desert Springs: a) unaudited balance sheets as of June 30, 1996 and 1997 and related statements of income and operations for the two years then ended (the "Desert Springs Balance Sheets"), and b) unaudited balance sheet as of September 30, 1997 and related statements of income and operations for the three months then ended (the "Desert Springs Interim Balance Sheet"); and (ii) with respect to Valley: a) unaudited balance sheets as of December 31, 1995 and 1996 and related statements of income and operations for the two years then ended (the "Valley Balance Sheets"), and b) unaudited balance sheet as of September 30, 1997 and related statements of income and operations for the nine months then ended (the "Valley Interim Balance Sheet") (the Desert Springs Interim Balance Sheet and the Valley Interim Balance Sheet are referred to herein as the "Balance Sheets" and the Desert Springs Balance Sheets, the Desert Springs Interim Balance Sheet, the Valley Balance Sheets and the Valley Interim Balance Sheet are referred to herein as the "Financial Statements"). Copies of the Financial Statements are attached hereto as Schedule 2.6. The Financial Statements of each such Party are in accordance with the books and records of such Party, are complete and correct in all material respects, fully and fairly set forth the financial condition of such Party as of the dates indicated, and the

results of its operations for the periods indicated, and have been prepared in accordance with generally accepted accounting principles consistently applied, except as otherwise stated therein and except for normal year-end adjustments (the effect of which will not, individually or in the aggregate, be materially adverse) and the absence of notes.

2.7 ABSENCE OF UNDISCLOSED LIABILITIES. Such Party has no liabilities or obligations of any nature, either accrued, absolute, contingent or otherwise, which are not reflected or provided for in the Financial Statements relating to it, except (i) those arising after the date of the Balance Sheets which are in the ordinary course of business, in each case in normal amounts and none of which is materially adverse, and (ii) as and to the extent specifically described in Schedule 2.7 hereof. Except as set forth on Schedule 2.7, such Party does not know and has no reasonable grounds to know of any reasonable basis, as of the date hereof, for assertion against it of any claim or liability of any nature in excess of $25,000 individually or $50,000 in the aggregate not fully disclosed in the Balance Sheets.

2.8 ABSENCE OF CERTAIN CHANGES OR EVENTS SINCE THE DATE OF THE BALANCE SHEETS. Except as otherwise disclosed in Schedule 2.8, since the date of the Balance Sheets such Party has not, except to the extent the same would not have a material adverse effect on it:

2.8.1 incurred any obligation or liability (fixed, contingent or otherwise), except normal trade or business obligations incurred in the ordinary course of business and consistent with past practice, none of which is materially adverse, and except in connection with this Agreement and the transactions contemplated hereby;

2.8.2 discharged or satisfied any lien, security interest or encumbrance or paid any obligation or liability (fixed, contingent or otherwise), including intercompany obligations and liabilities except in the ordinary course of business;

2.8.3 mortgaged, pledged or subjected to any Lien any of its assets or properties (other than mechanic's, materialman's and similar statutory liens arising in the ordinary course of business and purchase money security interests arising as a matter of law between the date of delivery and payment);

2.8.4 sold, assigned, conveyed, transferred, leased or otherwise disposed of, or agreed to sell, assign, convey, transfer, lease or otherwise dispose of any of its assets

or properties except for a fair consideration in the ordinary course of business and consistent with past practice or, except in the ordinary course of business and consistent with past practice, acquired any assets or properties;

2.8.5 canceled or compromised any debt or claim in excess of $2,500 for any individual debt or claim or $10,000 in the aggregate except patient account bad debt which is addressed in Section 2.8.14;

2.8.6 waived or released any rights of material value;

2.8.7 made or granted any wage or salary increase applicable to any group or classification of employees generally except merit increases and bonuses pursuant to prior personnel practices, entered into any employment contract with, or made any loan to, or entered into any material transaction of any other nature with any director, officer or employee, been the subject of any material labor dispute or, to its knowledge, threat thereof;

2.8.8 entered into any transaction or contract (other than Immaterial Contracts as defined in Section 2.13.4), except (i) contracts listed on Schedule 2.8 and (ii) this Agreement and the transactions contemplated hereby;

2.8.9 suffered any casualty loss or damage (whether or not such loss or damage shall have been covered by insurance) which affects in any material respect its ability to conduct business;

2.8.10 authorized or effected any amendment or restatement of its articles of incorporation or bylaws, or taken any steps looking toward its dissolution or liquidation;

2.8.11 suffered any material adverse change in its operations, earnings, assets, liabilities, properties or business or in its condition, financial or otherwise, other than changes in the general market conditions and prospects for the Facilities;

2.8.12 made capital expenditures or entered into any commitment therefore which, in the aggregate, exceed $500,000;

2.8.13 suffered any material adverse change in its relations with, or any material loss or, to its knowledge, material adverse threatened loss of any of its material

suppliers, managed care contracts, or Medicare or Medicaid contracts;

2.8.14 written off as uncollectible any accounts receivable or trade notes in excess of reserves; or

2.8.15 introduced any material change with respect to the operation of its business, including its method of accounting.

2.9 TAXES. Except as set forth in Schedule 2.9, such Party (i) has duly and timely filed or caused to be filed all federal, state, local and foreign tax returns and reports of "Taxes" (as hereinafter defined) required to be filed by it prior to the date of this Agreement which relate to it or with respect to which it or its assets or properties are liable or otherwise in any way subject, (ii) has paid or fully accrued for all Taxes, interest, penalties, assessments and deficiencies shown to be due and payable on such returns and reports (which Taxes, interest, penalties, assessments and deficiencies are all the Taxes, interest, penalties, assessments and deficiencies due and payable under the laws and regulations pursuant to which such returns were filed), and (iii) has properly accrued for all such Taxes accrued in respect of it or its assets and properties for periods subsequent to the periods covered by such returns. Except as set forth in Schedule 2.9, no deficiency in payment of taxes for any period has been asserted by any taxing body and remains unsettled at the date of this Agreement. Such Party has made all withholdings of Taxes required to be made under all applicable United States, state and local tax regulations and such withholdings have either been paid to the respective governmental agencies or set aside in accounts for such purpose or accrued, reserved against and entered upon the books of such Party. As used herein, the term "Tax" or "Taxes" means any federal, state, local or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Internal Revenue Code ("Code") Sec. 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum or estimated tax, assessment, charge, levy or fee of any kind whatsoever, which are due or alleged to be due to any taxing authority, whether disputed or not.

2.10 REAL PROPERTY. Except as set forth on Schedule 2.10:

(a) Schedule 2.10 hereto identifies all interests in real property, including land and improvements held by such

Party as of the date hereof, together with the nature of such interest. Such Party owns fee simple title to the tracts of Real Property set forth opposite its respective name on Schedule 2.10. To the extent that any interest in real property set forth thereon is leased or shared, Schedule 2.10 identifies the property as leased and describes the lease agreement and sets forth the nature and proportion of the sharing arrangement;

(b) the Real Property comprises all of the real property associated with or employed or used in the business of each of the Facilities;

(c) except as set forth in Schedule 2.10(c), to the best knowledge of such Party, no part of the Real Property contains, is located within or abuts any navigable water or other body of water, tideland, wetland, marshland or any other area which is subject to special state, federal or municipal regulation, control or protection;

(d) such Real Property adjoins dedicated public roadways and there is access for motor vehicles from the Real Property to such roadways by valid public or private easements; and, to the best knowledge of such Party, there are no conditions existing which could result in the termination or reduction of the current access from the Real Property to existing roadways;

(e) all essential utilities (including water, sewer, electricity and telephone service) are available to the Real Property;

(f) to the best knowledge of such Party, the Facilities and the Real Property and the businesses conducted thereon are in material compliance with all applicable planning, zoning, land use, public health, fire safety and building codes and ordinances; the consummation of the transactions contemplated herein will not result in a violation of any applicable planning, land use, public health, fire safety, zoning or building code or ordinance, or the termination of any applicable zoning variances, conditional use permits, waivers, exemptions or "grandfathering" now existing; and final, permanent and unconditional certificates of occupancy and/or use have been duly issued by the applicable governmental authority having jurisdiction for all buildings located on the Real Property;

(g) such Party has not received actual notice of a violation of any ordinance or other law, order, regulation or requirement, and has not received actual notice of condemnation or similar proceedings relating to any part of the Real Property;

(h) the Real Property of such Party is subject only to the Liens described in Schedule 2.10(h), and on

the Closing Date will be subject only to the Liens described on Schedule 2.10(h) which are not designated therein as "excluded" and any other Liens approved by the Company in writing on or after the effective date hereof (the "Permitted Encumbrances");

(i) such Party has not created or may not assert any rights in respect of any Liens which will interfere with the Company's use of the Real Property after the Closing Date;

(j) except for those tenants in possession of the Real Property under contracts described in Schedule 2.10(j), there are no parties in possession of, or claiming any possession, adverse or not, to or other interest in, any portion of Real Property as lessees, tenants at sufferance, trespassers or otherwise;

(k) no tenant is entitled to any rebate, concession or free rent, other than as set forth in the contract with such tenant; no commitments have been made to any tenant for repairs or improvements other than for normal repairs and maintenance in the future or as set forth in the contract with such tenant; and no rents due under any of the tenant contracts have been assigned or hypothecated to, or encumbered by, any person, other than pursuant to the encumbrances relating to indebtedness to be satisfied on or prior to the Closing Date, or Permitted Encumbrances, as additional security for the payment thereof;

(l) no part of the Real Property is currently subject to condemnation, eminent domain or other proceedings for the taking thereof, and to the best of such Party's knowledge, no condemnation or taking is threatened or known by such Party to be contemplated; and

(m) the improvements to the Real Property are located entirely within the boundaries of the Real Property and, to such Party's knowledge, do not materially violate any building set back lines or materially encroach upon any easements located on the Real Property.

2.11 TITLE TO PROPERTY AND ASSETS; SUFFICIENCY OF FACILITIES ASSETS.

(a) Such Party has good and marketable title to the Facilities Assets owned by it (including, without limitation, the properties and assets reflected in the Balance Sheets except any thereof since disposed of for value in the ordinary course of business) except for the Permitted Encumbrances, and none of such properties or assets is, except as disclosed in the Balance Sheets or the Schedules hereto, subject to a contract of sale not

in the ordinary course of business, or, except for Permitted Encumbrances, subject to any Liens.

(b) Except as described on Schedule 2.11, such Facilities Assets constitute, in the aggregate, all the properties and assets necessary for the operation of such Party's Facilities as currently conducted. The Facilities Assets, together with the Excluded Assets, comprise all of the following: (i) all assets owned by such Party, (ii) all assets used in connection with the Facilities and their related businesses and (iii) all assets owned, used or operated by any affiliate of such Party located within a fifty (50) mile radius of Las Vegas, Nevada.

2.12 CONDITION OF PROPERTY. All buildings on the Real Property and all items of tangible personal property, equipment, fixtures and inventories included within the assets and properties of such Party or required to be used in the ordinary course of its business are being contributed and transferred pursuant to this Agreement on an "as is, where is" basis with no representations or warranties express or implied as to their physical condition and WITHOUT ANY WARRANTIES FROM ANY PARTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

2.13 LIST OF CONTRACTS AND OTHER DATA. Schedule 2.13 sets forth the following information with respect to the properties and assets of such Party, other than the Excluded Assets (indicating in each case, where appropriate, whether or not consent by a third party is required for the transfer of such properties and assets to the Company):

2.13.1 a description of all real property leased by such Party and all leases of real property to which such Party is a party;

2.13.2 a list of all personal property owned of record or beneficially by such Party having a value per item or group of items in excess of $1,000 and all leases of personal property, licenses, permits, franchises, concessions, certificates of public convenience or the like to which such Party is a party;

2.13.3 a list of (i) all United States and foreign patents, trademarks and trade names, trademark and trade name registrations, service marks and service mark registrations, copyrights and copyright registrations, unexpired as of the date hereof, all United States and foreign applications pending on said date for patents, for trademark or trade name registrations, for service mark registrations, or for copyright registrations, and all trademarks, trade names, service marks, labels and other trade rights in use on said date, all of the foregoing being

owned in whole or in part as noted thereon on said date by such Party, (ii) a description of all action taken by such Party to protect all tradenames used by it, and (iii) all licenses granted by or to such Party and all other agreements to which such Party is a party, which relate in whole or in part to any items of the categories mentioned in clause (i) above or to any other proprietary rights, whether owned by such Party or otherwise;

2.13.4 a list of all existing contracts and commitments to which such Party is a party or by which such Party or any of its respective properties or assets is bound, except for Immaterial Contracts. "Immaterial Contracts" shall mean contracts which (i) no party thereto is a physician, physician group or other referral source to a Facility, and is not a third party payor contract and is not a real estate lease and (ii) requires payment by any Party to such contract of less than $100,000 per year; and

2.13.5 a list of (i) all collective bargaining agreements, multi-employer pension plans, employment, consulting and separation agreements, executive compensation plans, bonus plans, incentive compensation plans, deferred compensation agreements, employee pension plans or retirement plans, employee profit sharing plans, employee stock purchase and stock option plans and hospitalization insurance or other plans or arrangements providing for benefits for employees or former employees of such Party, and (ii) all Multiemployer Plans (as defined in ERISA as hereinafter defined) which such Party maintains or has maintained or to which such Party makes, is required to make, has made or has been required to make a contribution.

All documents, rights, obligations and commitments referred to in this Section 2.13 are, to the best knowledge of such Party, valid and enforceable in accordance with their terms for the period stated therein and there is not under any of them any existing breach, default, event of default or event which with the giving of notice or lapse of time, or both, would constitute a default, by such Party, or, to such Party's knowledge, by any other party thereto, nor, except as set forth on Schedule 2.13, has any party thereto given notice of or made a claim with respect to any breach or default. There are no existing laws, regulations or decrees, nor to such Party's knowledge are there any proposed laws, regulations or decrees, which adversely affect any of such documents, rights, obligations or commitments. Except as set forth on Schedule 2.13, no part of the business or operations of such Party is dependent to any material extent on any patent, trademark, copyright, or license or any assignment thereof or any secret processes or formulae. Except as set forth on Schedule 2.13, none of the rights of such Party under such documents, rights, obligations or commitments

is subject to termination or modification as a result of the transactions contemplated hereby.

2.14 NO BREACH OR DEFAULT. Such Party is not in default under any contract to which it is a party or by which it is bound, nor has any event occurred which, after the giving of notice or the passage of time or both, would constitute a default under any such contract except as set forth in Schedule 2.14. Such Party has no reason to believe that the parties to such contracts will not fulfill their obligations under such contracts in all material respects or are threatened with insolvency.

2.15 LABOR CONTROVERSIES. Neither such Party, nor any of its employees, is a party to any collective bargaining agreement except as included in Schedule 2.13. There are not any controversies pending or, to the knowledge of such Party, threatened between such Party and any of its employees which might reasonably be expected to materially adversely affect the conduct of its business, or any unresolved labor union grievances or unfair labor practice or labor arbitration proceedings pending or, to the knowledge of such Party, threatened relating to its business, and to the knowledge of such Party, there are not any further organizational efforts presently being made or threatened involving any of the employees of such Party. Except as set forth on Schedule 2.15, such Party has not received any notice or claim that it has not complied with any laws relating to the employment of labor, including any provisions thereof relating to wages, hours, collective bargaining, the payment of social security and similar taxes, equal employment opportunity, employment discrimination and employment safety, or that such Party is liable for any arrears of wages or any taxes or penalties for failure to comply with any of the foregoing.

No person or Party (including, but not limited to, any governmental agency) has any claim or basis for any action or proceeding, against a Party, arising out of any statute, ordinance or regulation relating to wages, collective bargaining, discrimination in employment or employment practices or occupational safety and health standards (including, but not limited to, the Fair Labor Standards Act, Title VII of the Civil Rights Act of 1964, as amended, the Occupational Safety and Health Act, or the Age Discrimination in Employment Act of 1967 or the Americans With Disabilities Act of 1990). Each Party has complied with all laws and regulations with respect to the determining of independent contractor or employee status.

2.16 LITIGATION. Except as set forth in Schedule 2.16, there are no claims, actions, suits or proceedings or, to the knowledge of such Party, investigations with respect to such Party, involving claims by or against such Party which are pending or, to such Party's knowledge, threatened against such Party, at law or in equity, or before or by any federal, state,

municipal or other governmental department, commission, board, bureau, agency or instrumentality, or before the internal grievance mechanisms of such Party. To such Party's knowledge, no basis for any action, suit or proceeding exists, and there are no orders, judgments, injunctions or decrees of any court or governmental agency with respect to which it has been named or to which it is a party, which directly apply, in whole or in part, to the business of such Party, or to any of its assets or properties, or which would result in any material adverse change in its business.

2.17 PATENTS; TRADEMARKS, ETC. No patents, trademarks, trade names, copyrights, registrations or applications are necessary for the conduct of the business of such Party as now conducted, other than those listed in Schedule 2.13 hereto. Except as described in Schedule 2.13 hereto, all such patents, trademarks, trade names, copyrights and registrations are in good standing, are valid and enforceable and are free from any default on the part of such Party. Such Party is not a licensor in respect of any patents, trademarks, trade names, copyrights or registrations or applications therefor. Such Party is not in violation of any patent, patent license, trade name, trademark, or copyright of others. No director, officer or employee of such Party owns, directly or indirectly, in whole or in part, any patents, trademarks, trade names, copyrights, registrations or applications therefor or interests therein which such Party has used, is presently using, or the use of which is necessary for its business as now conducted.

2.18 LICENSES; PERMITS; AUTHORIZATIONS. Schedule 2.18 hereto is a schedule of all rights, approvals, authorizations, consents, licenses, orders, accreditations, franchises, concessions, certificates and permits of all governmental agencies, whether United States, state or local, and accrediting bodies, (collectively, the "Licenses") required by the nature of the business conducted by such Party to permit the continued operation of its business in the manner in which it was conducted as of the date hereof (indicating in each case, where appropriate, whether or not the consent by a third party to the transfer to the Company is required). Such Party has all Licenses required to permit the operation of its business as presently conducted; such Party's business is and has been operated in all material respects in compliance therewith and all such Licenses are in full force and effect and no action or claim is pending, nor to the knowledge of such Party, is threatened to revoke, terminate or declare invalid any of the foregoing.

2.19 COMPLIANCE WITH APPLICABLE LAW; ENVIRONMENTAL LAWS.

(a) Except as set forth on Schedule 2.19 hereto, the conduct of the business of such Party does not (i) violate or infringe any domestic or foreign laws, statutes, rules or regulations or any material ordinances, including, without limitation, any of the foregoing that pertain to or regulate the operation of a hospital, consumer protection, health and safety or occupational safety matters, or (ii) violate or infringe any right or patent, trademark, trade name, service mark, copyright, know-how or other proprietary right of third parties, the enforcement of which would adversely affect the business of such Party or the value of its properties or assets.

(b) Neither such Party nor, to the knowledge of such Party, any of its employees, officers and directors in their capacities as such, have engaged in any activities which are prohibited under any federal laws, or the regulations promulgated pursuant to such laws or related state or local laws, statutes or regulations or which are prohibited by rules of professional conduct, including but not limited to the following: (i) knowingly and willfully making or causing to be made a false statement or representation of a material fact in any application for any benefit or payment; (ii) knowingly and willfully making or causing to be made any false statement or representation of a material fact for use in determining rights to any benefit or payment; (iii) presenting or causing to be presented a claim for reimbursement for services under Medicare, Medicaid or other state health care programs that is for an item or service that is known or should be known to be (a) not provided as claimed, or (b) false or fraudulent; (iv) failing to disclose knowledge by a claimant of the occurrence of any event affecting the initial or continued right to any benefit or payment on its own behalf or on behalf of another, with intent to fraudulently secure such benefit or payment; (v) knowingly and willfully offering, paying, soliciting, or receiving any remuneration (including any kickback, bribe, or rebate), directly or indirectly, overtly or covertly, in cash or in kind (a) in return for referring an individual to a person for the furnishing or arranging for the furnishing of any item or service for which payment may be made in whole or in part by Medicare, Medicaid or other state health care program, or (b) in return for purchasing, leasing, or ordering or arranging for or recommending purchasing, leasing, or ordering any good, facility, service, or item for which payment may be made in whole or in part by Medicare, Medicaid or other state health care program; (vi) knowingly making a payment, directly or indirectly, to a physician as an inducement to reduce or limit necessary services to individuals who are under the direct care of the physician and who are entitled to benefits under Medicare, Medicaid, or other state health care programs; (vii) providing to any person information that is known or should be known to be false or misleading that could reasonably be expected to influence the decision when to discharge a patient

from a Facility; (viii) knowingly and willfully making or causing to be made or inducing or seeking to induce the making of any false statement or representation (or omitting to state a material fact required to be stated therein or necessary to make the statement contained therein not misleading) of a material fact with respect to (a) the conditions or operations of a Facility in order that the Facility may qualify for Medicare, Medicaid or other state health care program certification, or (b) information required to be provided under (S) 1124A of the Social Security Act (42 U.S.C. (S) 1320a-3); or (ix) knowingly and willfully (a) charging for any Medicaid service money or other consideration at a rate in excess of the rates established by the state, or (b) charging, soliciting, accepting or receiving, in addition to amounts paid by Medicaid, any gift money, donation or other consideration (other than a charitable, religious or other philanthropic contribution from an organization or from a person unrelated to the patient) (1) as a precondition of admitting the patient, or (2) as a requirement for the patient's continued stay in the Facility.

(c) All Licenses currently held by such Party pursuant to the Environmental Laws are identified in Schedule 2.18.

(d) Such Party is in compliance in all material respects with all applicable Environmental Laws except as disclosed in Schedule 2.19.

(e) In regards to the Facilities and the Real Property, there is no Environmental Claim pending or, to such Party's knowledge, threatened against the Facilities or the Real Property or, to such Party's best knowledge after due inquiry, any other person whose liability for any Environmental Claim such Party has retained or assumed contractually; to such Party's knowledge, there are no past or present actions, activities, circumstances, conditions, events or incidents, including the release, emission, discharge or disposal of any Materials of Environmental Concern, that could form the basis of any Environmental Claim against such Party or against any person whose liability for any Environmental Claim such Party has retained or assumed contractually; and such Party has not received any written communication, whether from a governmental authority or otherwise, that alleges that such Party is not in full compliance with all applicable Environmental Laws.

(f) In regards to the Facilities and the Real Property, without in any way limiting the generality of the foregoing, (i) all on-site and off-site locations where such Party has stored, disposed or arranged for the disposal of Materials of Environmental Concern are identified in Schedule 2.19, (ii) all Contracts dealing with the removal, storage,

disposal and handling of Materials of Environmental Concern are with properly licensed and registered vendors, (iii) all underground storage tanks, and the capacity and contents of such tanks, located on the Real Property are identified in Schedule 2.19, (iv) except as set forth on Schedule 2.19, there is no asbestos contained in or forming part of the Real Property, and (v) except as set forth on Schedule 2.19, no polychlorinated biphenyls (PCBs) are used or stored on the Real Property.

(g) As used herein: (i) "Environmental Claim" means any written notice by a person alleging potential liability (including potential liability for investigatory costs, cleanup costs, governmental response costs, natural resources damages, property damages, personal injuries or penalties) arising out of, based on or resulting from, directly or indirectly, the presence, or release into the environment, of any Materials of Environmental Concern (as defined below); (ii) "Environmental Laws" means any and all federal, state, local and foreign laws and regulations (including common law) relating to pollution or protection of human health or the environment (including ground water, land surface or subsurface strata), including laws and regulations relating to emissions, discharges, releases or threatened releases of Materials of Environmental Concern, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, recycling, reporting or handling of Materials of Environmental Concern; and (iii) "Materials of Environmental Concern" means chemicals, pollutants, contaminants, wastes (including medical waste), toxic substances, polychlorinated biphenyls (PCB's), ureaformaldehyde, petroleum and petroleum products and such other substances, materials and wastes which are defined or classified as hazardous or toxic under any Environmental Laws.

2.20 EMPLOYEE BENEFIT PLANS; EMPLOYEES AND EMPLOYEE RELATIONS.

2.20.1 Attached hereto is an accurate list (Schedule 2.20.1) of all "employee welfare benefit plans" and "employee pension benefit plans" (collectively, "Qualified Plans"), as such terms are defined by the Employment Retirement Income Security Act of 1974, as amended ("ERISA"), and any other group employee benefit plan, agreement, arrangement or understanding maintained for the benefit of such Party (the Qualified Plans, together with such other plans, arrangements and understandings, collectively, the "Employee Benefit Plans"). To the extent available, complete and genuine copies of the summary plan descriptions have been provided to the other Party, which summary plan descriptions accurately summarize the material provisions of the Employee Benefit Plans. Neither such Party nor any other members of the Controlled Group of Corporations (as defined in Section 1563 of the Code) that includes such Party

contributes to, ever has contributed to, or ever has been required to contribute to any Multiemployer Plan (as defined in Section 3(37) of ERISA) or has any liability (including withdrawal liability) under any Multiemployer Plan. There is no lien, encumbrance or claim of any type on the Facilities Assets or against such Party with respect to the Employee Benefit Plans, and such Party has not taken any action, or omitted to take any action, with respect to the Employee Benefit Plans (or has any knowledge of the same) that would or could be expected to result in a Lien on the Facilities Assets or against such Party.

2.20.2 Schedule 2.20.2 sets forth a complete list (as of the date set forth therein) of names, positions, current annual salaries or wage rates, and bonus and other compensation arrangements of all full-time and part-time employees of such Party.

2.21 ADVERSE AGREEMENTS; NO ADVERSE CHANGE.

(a) Such Party is not a party to or subject to any agreement or instrument or subject to any charter or other corporate restriction or any judgment, order, writ, injunction, decree or rule specifically naming such Party which adversely affects the business, operations, properties, assets or conditions, financial or otherwise, of such Party.

(b) To the best of such Party's knowledge there has not been any material adverse change in, or development materially adversely affecting the business, assets, financial position or results of operations of any of such Party since the Balance Sheet date.

2.22 TRADE NOTES AND ACCOUNTS RECEIVABLE; TRADE ACCOUNTS PAYABLE; PREPAID CONTRACTS.

(a) Except as set forth on Schedule 2.22 hereto, the trade notes and accounts receivable of such Party are reflected on the Balance Sheets and all trade notes and accounts receivable arising thereafter and prior to the Closing Date arose and will arise from bona fide transactions in the ordinary course of business of such Party, and are (except for normal claims and allowances which are consistent with past experience of such Party and which in the aggregate are not material) current, arose in the usual and ordinary course of business of such Party from arms-length transactions, are not subject to any defenses, counterclaims or set-offs which would materially adversely affect such trade notes and accounts receivable, and, to such Party's knowledge, are fully collectible, less the applicable allowance for doubtful accounts. Such Party has fully performed all obligations with respect to such trade notes and accounts

receivable which it was obligated to perform prior to the date hereof and Schedule 2.22 sets forth an aging schedule, as of December 31, 1997, or thereafter, for all such trade notes and accounts receivable.

(b) The trade accounts payable of such Party reflected on the Balance Sheets and all trade accounts payable arising thereafter and prior to the Closing Date arose and will arise from bona fide transactions in the ordinary course of business of such Party and were paid or are not yet due and payable.

(c) Schedule 2.22 hereto sets forth the amounts and dates of all payments (the "Prepayments") received by such Party which relate to services to be performed by such Party subsequent to the Closing Date, including, without limitation, all such payments expressly authorized to be made in advance by any of the terms of any contract or agreement with such Party.

2.23 INVENTORIES AND SUPPLIES. All inventories and supplies of such Party, whether or not reflected in the Balance Sheets, consist of a quality and quantity useable and salable in the ordinary course of business, without discount or reduction, except for obsolete items and items of below-standard quality, all of which have been written off or written down to net realizable value in the Balance Sheets. All inventories and supplies not written off are valued at the lower of cost (applied on a first in, first out basis) or market in accordance with generally accepted accounting principles. The present quantities of inventory and supplies are not excessive and are reasonable and consistent with the past inventory and supply practices of such Party.

2.24 ILLEGAL PAYMENTS. Such Party has not, nor to the knowledge of such Party, has any of its respective directors or officers, in their capacity as such, either directly or indirectly, made any illegal payments to, or provided any illegal benefit or inducement for, any person pursuant to an action illegal under any federal, state or local law.

2.25 INSURANCE POLICIES. (a) Schedule 2.25 contains a correct and complete description of all insurance policies of such Party covering such Party and its employees, agents and assets. Each such policy is in full force and effect and, to the knowledge of such Party, is reasonably adequate in coverage and amount to insure against customarily insured risks to which such Party and its employees, businesses, properties and other assets may likely be exposed in the operation of its business. All premiums with respect to such insurance policies have been paid on a timely basis, and no notice of cancellation or termination has been received with respect to any such policy. To the knowledge of such Party, and except as set forth on Schedule

2.25, there are no pending claims against such insurance by such Party as to which the insurers have denied coverage or otherwise reserved rights. Since January 1, 1994, such Party has not been refused any insurance with respect to its assets or operations, nor has its coverage been limited by any insurance carrier to which it has applied for any such insurance or with which it has carried insurance.

(b) Schedule 2.25 contains a correct and complete description of all insurance policies of such Party covering the Real Property. Each such policy is in full force and effect and, to the knowledge of such Party, is reasonably adequate in coverage and amount to insure against customarily insured risks with respect to property of this type. All premiums with respect to such insurance policies have been paid on a timely basis, and no notice of cancellation or termination has been received with respect to any such policy. Except as set forth on Schedule 2.25, there are no pending claims against such insurance by such Party as to which the insurers have denied coverage or otherwise reserved rights.

2.26 PROFESSIONAL STAFF, MEDICARE, MEDICAID AND OTHER HEALTH CARE PROGRAMS.

(a) The professional licensed provider staff of each of the Facilities consists of the persons whose names and status are set forth on Schedule 2.26(a) hereto.

(b) Except as set forth on Schedule 2.26(b) hereto, such Party is certified for participation in the Medicare and Nevada Medical Assistance ("Medicaid") programs, and has a current and valid provider contract with such programs.

(c) Except as set forth on Schedule 2.26(c) hereto, such Party has timely filed or caused to be timely filed all cost reports and other reports of every kind whatsoever required by any governmental or other entity to be made by it with respect to the purchase of services by third-party purchasers, including but not limited to Medicare and Medicaid programs and other insurance carriers, and all such reports are complete and accurate in all material respects. Such Party has paid or caused to be paid all refunds, discounts or adjustments which have become due in accordance with said reports as filed and, except as set forth on Schedule 2.26(c), have not been notified that there is any further liability now due (whether or not disclosed in any report heretofore or hereafter made) for any such refund, discount or adjustment, or any interest or penalties accruing with respect thereto. Such Party has delivered to the other Party complete copies of all of its Medicare and Medicaid cost reports submitted by such Party for the two most recent fiscal years.

(d) To the knowledge of such Party, such Party and its officers, directors, employees or agents (acting in their capacities as such), have not engaged in any activities which (i) could subject such Party or person to sanctions under 42 U.S.C. (S) 1320a-7 (other than subparagraph (b)(7) thereof) or (ii) at the time such activities were engaged in were known or reasonably could have been known to be prohibited under Federal Medicare and Medicaid statutes, 42 U.S.C. (S) (S) 1320a-7a and 1320a-7b, or the regulations promulgated pursuant to such statutes or related state or local statutes or regulations or which are prohibited by rules of professional conduct.

2.27 FACILITY SURVEYS. True and complete copies of any and all licensure survey reports and any and all Medicare and/or Medicaid and JCAHO or other accreditation survey reports issued within the 24-month period preceding the execution of this Agreement with respect to each Facility for which surveys are conducted by the appropriate state or Federal agencies having jurisdiction thereof and JCAHO or accreditation bodies have been furnished to the other Party, along with true and complete copies of any and all plans of correction which the agencies required to be submitted in response to said survey reports.

2.28 RELATED PARTY TRANSACTIONS. To the knowledge of such Party, except as set forth in Schedule 2.28, and except for compensation to employees for services rendered, no current director or officer of such Party or any affiliate thereof is presently, or during the last fiscal year has been, (a) a party to any material transaction with such Facility (including, but not limited to, any contract or other arrangement providing for the furnishing of service by, or rental of real or personal property from, or otherwise requiring payments to, any such director, officer, or shareholder, or (b) the direct or indirect owner of any interest in any person which is a present competitor, supplier or customer of such Party with respect to the business, nor does any such person receive income from any source other than such Party which should properly accrue to such Party.

2.29 NO BROKERS. Such Party has not entered into any contract, arrangement or understanding with any person or firm which may result in the obligation of the Company following the Merger or any other Party to pay any finder's fees, brokerage or agent's commissions or other like payments in connection with the negotiations leading to this Agreement or the consummation of the transactions contemplated hereby, and such Party is not aware of any claim or basis for any claim for payment of any finder's fees, brokerage or agent's commissions or other like payments in connection with the negotiations leading to this Agreement or the consummation of the transactions contemplated hereby.

2.30 NO MISREPRESENTATION OR OMISSION. No representation or warranty by such Party in this Article 2 or in any other Article or Section of this Agreement, or in any certificate or other document furnished or to be furnished by or on behalf of such Party pursuant hereto, contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary to make the statements contained therein not misleading.

3. [ARTICLE 3 INTENTIONALLY OMITTED.]

4. COVENANTS OF THE PARTIES.

4.1 ACCESS TO FACILITIES AND ADDITIONAL INFORMATION.

4.1.1 From the date hereof until the Closing Date, the Parties shall provide, and cause their respective agents (including counsel and accountants) to provide to one another reasonable access to and the right to inspect the Facilities Assets and their respective books and records pertaining to the Facilities Assets, and will furnish and cause to be furnished to one another all material information concerning their respective businesses not otherwise disclosed pursuant to this Agreement, and such additional financial, operating and other data and information regarding themselves, their respective businesses and the Facilities Assets as either of them may from time to time reasonably request, without regard to where such information may be located.

4.1.2 Promptly after the execution of this Agreement, each Party shall deliver to one another, to the extent not already delivered, copies of all title insurance policies and binders in the possession of either Party for any of the Real Property and copies of all surveys of any of the Real Property in the possession of either Party.

4.2 OPERATIONS. From the date hereof until the Closing Date and except as otherwise expressly provided in this Agreement, each of Desert Springs and Valley will:

(a) carry on its business in substantially the same manner as heretofore and not make any material change in its personnel, operations, finances, accounting policies, or real or personal property;

(b) maintain the Facilities Assets and all parts thereof in their current condition, ordinary wear and tear excepted;

(c) perform all of its obligations relating to or affecting the Facilities Assets or the business of its Facility;

(d) use their reasonable efforts to obtain appropriate releases, consents, estoppels and other instruments as the other Party may reasonably request;

(e) keep in full force and effect present insurance policies or other comparable insurance and maintain sufficient liquid reserves to meet all deductible, self-insurance and copayment requirements under present insurance policies;

(f) maintain and preserve its business organizations and operations intact, deal with the present employees at its Facility in a manner consistent with its existing personnel policies; maintain its relationships with physicians, suppliers and other persons having business relations with it; and cooperate with the other Party by taking such actions as are reasonably necessary to facilitate the smooth, efficient and successful transition to the Company following the Merger of such business organizations and operations and employee and other relations; and

(g) permit and allow reasonable access by the other Party to discuss post-closing employment with any of its personnel and to establish relationships with physicians, suppliers and others having business relations with it.

4.3 NEGATIVE COVENANTS. From the date hereof until the Closing Date, except as otherwise expressly permitted by this Agreement or without the prior written consent of one another, none of Desert Springs or Valley will:

(a) amend or terminate any of the Assumed Contracts, enter into any contract or agreement or incur or agree to incur any liability, except in the ordinary and regular course of business, and in no event that requires the payment by such entity prior to the Closing Date or the Company following the Merger of an amount greater than twenty-five thousand dollars ($25,000) per contract or agreement, or that is not terminable without cause or penalty within thirty (30) days following the Closing Date;

(b) make offers to any of its employees for employment with it after the Closing Date;

(c) increase compensation payable or to become payable to, make a bonus payment to, or otherwise enter into one or more bonus agreements with, any of its employees or agents, except in the ordinary and regular course of business in accordance with existing personnel policies;

(d) create, assume or permit to exist any new Lien upon any of the Facilities Assets other than purchase money liens arising in the ordinary course of business;

(e) sell, assign, transfer, distribute or otherwise dispose of any property, plant or equipment, except in the ordinary and regular business of the Facilities with comparable replacement thereof;

(f) take any action outside the ordinary and regular course of business;

(g) take any action relating to its liquidation or dissolution; or

(h) create, incur, assume, guarantee or otherwise become liable for, cancel, pay, agree to cancel or pay, provide for a complete or partial discharge in advance of a scheduled payment date with respect to, or waive any right to receive any direct or indirect payment or other benefit under, any liability except in the ordinary and regular course of business and in an amount not exceeding $25,000 individually or $50,000 in the aggregate.

4.4 GOVERNMENTAL APPROVALS. From the date hereof until the Closing Date, each Party shall (a) promptly apply for and use its reasonable best efforts to obtain prior to the Closing Date all consents, approvals, authorizations and clearances of governmental and regulatory authorities required of it to consummate the transactions contemplated hereby, (b) provide such information and communications to governmental and regulatory authorities as such authorities may reasonably request, and (c) assist and cooperate with the other Party to obtain all consents, licenses, permits, approvals, authorizations and clearances of governmental and regulatory authorities that the other Party reasonably deems necessary or appropriate, and to prepare any document or other information required of the Company following the Merger by any such authorities, in order to consummate the transactions contemplated herein.

4.5 INSURANCE RATINGS. From the date hereof until the Closing Date, each Party will take all action reasonably requested by the other Party to enable the Company following the Merger to succeed to the worker's compensation and unemployment insurance ratings of each Party with respect to its Facility for insurance purposes. The Company shall not be obligated to succeed to any such rating except as it may elect to do so.

4.6 EMPLOYEES; EMPLOYEE BENEFIT PLANS. Each Party shall retain all liabilities and obligations for all benefits

under the Employee Benefit Plans, regardless of whether any such liabilities and obligations are disclosed on the Balance Sheets (including, without limitation, any and all workers' compensation, health, disability or other benefits due to or for the benefit of any employees of such Party or their covered dependents) with the exception of vacation, sick leave, paid time off and the like, and COBRA, all of which will be assumed by the Company. As of the Closing Date, each Party shall terminate the participation of all employees in any Employee Pension Benefit Plan in which any of such Party's employees participates, and provide for distributions pursuant to the terms of the plans, ERISA and the Code.

4.7 FURTHER ACTS AND ASSURANCES. At any time and from time to time at and after the Closing, upon request of the Company, each Party shall do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, such further acts, deeds, assignments, transfers, conveyances, powers of attorney, confirmations and assurances as the Company may reasonably request to more effectively convey, assign and transfer to and vest in the Company, full legal right, title and interest in and actual possession of the Facilities Assets and the business of the Parties, to confirm each Party's capacity and ability to perform its post-closing covenants and agreements under this Agreement, and to generally carry out the purposes and intent of this Agreement. Each Party shall also furnish the Company with such information and documents in its possession or under its control, or which such Party can execute or cause to be executed, as will enable the Company to prosecute any and all petitions, applications, claims and demands by or against third parties relating to or constituting a part of the Facilities Assets and the business of the Parties. After the Closing Date, the Parties shall promptly remit to the Company any payments received by such Party with respect to any accounts receivable or other amounts sold to the Company; and similarly, after the Closing Date the Company shall promptly remit to a Party any payments received by the Company with respect to accounts receivable or other amounts retained by such Party. Any funds so collected will be remitted within five (5) days following receipt of such payment.

4.8 SUMMERLIN TRANSACTION. Simultaneous with the contribution of the Facilities Assets to Newco UHS-1 pursuant to this Agreement, (i) Summerlin Hospital Medical Center, L.P. ("Summerlin") shall contribute, convey, assign, transfer and deliver to Summerlin Hospital Medical Center LLC, a limited liability company ("Newco UHS-2") created by Summerlin pursuant to the LLC Act those assets and properties of Summerlin which are in the nature of the Facilities Assets (but excluding its assets and properties which are in the nature of Excluded Assets) and (ii) Newco UHS-2 shall assume and agree to pay, perform and

discharge the liabilities and obligations of Summerlin which are in the nature of Assumed Liabilities. Simultaneous with the consummation of the Merger, Summerlin shall sell to Desert Springs and Desert Springs shall acquire a twenty-six and 115/1000 percent (26.115%) interest in Newco UHS-2 upon terms and conditions mutually acceptable to Valley, Summerlin and Desert Springs, and Summerlin thereafter shall own a seventy-three and 885/1000 percent (73.885%) interest in Newco UHS-2.

4.9 ADDITIONAL PROPERTIES AND ASSETS. On or prior to the Closing Date, Valley shall cause the entities listed on Schedule 4.9, all of which Valley represents are its affiliates, to convey to Valley or Newco UHS-1, or contribute to the Company, the properties and assets listed on Schedule 4.9. If such properties and assets are conveyed to Valley such properties and assets shall constitute UHS Facilities and shall be contributed by Valley to Newco UHS-1 pursuant to the terms of this Agreement as if they had been contributed prior to execution hereof. Any representations, warranties, and covenants (including liabilities not assumed) which reference knowledge, receipt of notice, or a phrase of similar import, shall also include knowledge, notice or phrase of similar import of such affiliate of Valley and any references in Section 1.7 and Sections 2.7 to 2.30 to Valley as a Party shall include such affiliate of Valley.

5. MATTERS PERTAINING TO THE COMPANY.

5.1 EMPLOYEE MATTERS. Subject to the exclusions set forth in this Section, the Parties will cause the Company to offer to employ as of the Closing Date, on an at-will basis (subject to any existing union contracts), all employees working at the Facilities immediately prior to the Closing Date (including those on leave) so that the Parties may avoid the imposition of any liability under the WARN Act and the Company shall pay all liability of the Parties under the WARN Act resulting from the Company's failure to do so. For the employees who accept the Company's offer of employment, the Company shall recognize the employee's length of service with the Parties for vesting and benefits eligibility purposes under the Company's employee benefit programs. Notwithstanding the foregoing, the Company shall have no obligation to offer employment to, except as required under any union contract, (i) those employees who are "part-time employees" (as defined in the WARN Act) and (ii) those employees who voluntarily elect to leave the employment of any Party.

5.2 FURTHER ACTS AND ASSURANCES. At any time and from time to time at and after the Closing Date, the Parties shall cause the Company to execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered such further

acts, deeds, assignments, transfers, conveyances, powers of attorney, confirmations and assurances as the Parties may reasonably request to confirm the capacity and ability of the Company to perform those acts relating to the post-closing covenants and agreements of the Parties (with respect to causing the Company to perform such acts) under this Agreement, and to generally carry out the purposes and intent of this Agreement. The Parties shall cause the Company to furnish the Parties with such information and documents in its possession or under its control, or which it can execute or cause to be executed, as will enable the Parties to prosecute any and all petitions, applications, claims and demands by or against third parties relating to or constituting a part of the Facilities Assets and the business of the Facilities for which any Party is liable hereunder or relating to Government Reimbursement Programs.

6. CONDITIONS OF CLOSING.

6.1 CONDITIONS OF CLOSING. The obligations of the Parties to contribute the Facilities Assets and cause the Merger to be consummated shall be subject to and conditioned upon the satisfaction at the Closing Date of each of the following conditions (it being understood and agreed that (i) the conditions to the benefit of Valley are solely with respect to Quorum Facilities and Desert Springs and not with respect to itself or its Facilities and (ii) the conditions to the benefit of Desert Springs are solely with respect to UHS Facilities and Valley and not with respect to itself or its Facilities):

6.1.1 All representations and warranties of the Parties contained in this Agreement and the Schedules hereto shall be true and correct in all material respects at and as of the Closing Date, the Parties shall have performed in all material respects all agreements and covenants and satisfied all conditions on their part to be performed or satisfied by the Closing Date pursuant to the terms of this Agreement, and each Party shall have received a certificate of the other Party dated the Closing Date to such effect.

6.1.2 Except as caused solely by any change in the relevant market conditions and prospects, for which the other Party shall assume all risk, there shall have been no material adverse change since the date of the Balance Sheets in the financial condition, business or affairs of each Party; and each Party shall not have suffered any material loss (whether or not insured) by reason of physical damage caused by fire, earthquake, accident or other calamity which substantially affects the value of its assets, properties or business the insurance proceeds related to which are not, in the reasonable opinion of the other Party, adequate to repair such damage and compensate for any lost

business related thereto. Each Party shall have received a certificate of the other Party dated the Closing Date that the statements set forth in this Section 6.1.2 are true and correct.

6.1.3 Each Party shall have delivered to the other Party a Certificate of the Secretary of State (or other authorized officer) of the State of its jurisdiction of incorporation, and certifying as of a date reasonably close to the Closing Date that such Party has filed all required reports, paid all required fees and taxes, and is, as of such date, in good standing and authorized to transact business as a domestic corporation.

6.1.4 Each Party shall have delivered to the other Party a certificate of its corporate Secretary certifying:

(i) The Resolutions of its Board of Directors authorizing the execution, performance and delivery of this Agreement and the execution, performance and delivery of all agreements, documents and transactions contemplated hereby;

(ii) The incumbency of its officers executing this Agreement and all agreements and documents contemplated hereby; and

(iii) That the Articles of Incorporation and Bylaws of such Party attached to such certificate are complete and correct and in effect as of the date of such certification.

6.1.5 Each Party shall have received from counsel for the other Party (which may be house counsel), an opinion, dated the Closing Date, satisfactory to such party in the form attached hereto as <u>Exhibit B</u>.

6.1.6 All material authorizations, consents, waivers, approvals, orders, registrations, qualifications, designations, declarations, filings or other actions required with or from any governmental entity (including without limitation receipt of licenses (or commitments to issue licenses) to own and operate the Facilities and for the Company following the Merger to conduct the businesses of the Parties as currently conducted) in connection with the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby shall have been duly obtained and shall be reasonably satisfactory to the Parties, and copies thereof shall be delivered to the Parties prior to the Closing Date.

6.1.7 On the Closing Date, no injunction or order shall be in effect prohibiting consummation of the transactions contemplated hereby or which would make the consummation of such

transactions unlawful and no action or proceeding shall have been instituted and remain pending before a governmental entity to restrain or prohibit the transactions contemplated by this Agreement and no adverse decision shall have been made by any such governmental entity which is reasonably likely to materially adversely affect the Company, the Parties, Newco UHS-1, Newco Q-1 or the Facilities Assets. No federal, state or local statute, rule or regulation shall have been enacted the effect of which would be to prohibit, materially restrict, impair or delay the consummation of the transactions contemplated hereby or materially restrict or impair the ability of the Company following the Merger to own the Facilities Assets or to conduct the businesses relating thereto.

6.1.8 The Parties' receipt of standard ALTA or CLTA fee owner's title insurance policies using the current ALTA or CLTA form(the "Title Policies") insuring title (at standard market rates for fee simple or leasehold title) to each parcel of Real Property in the Company, as fee owner, or with respect to the Boyer Property and the Capstone Property identified on Schedule 2.13, as leasehold owner, as the case may be, subject only to the Permitted Encumbrances, in the aggregate amount of $50,000,000 for Valley and $44,300,000 for Desert Springs, and issued by a national title insurance company (the "Title Company"). The Title Policies shall be issued with all standard or general printed exceptions (other than the survey exceptions) deleted and will contain a so-called "non-imputation" endorsement and such additional endorsements as the Parties may reasonably require.

6.1.9 Execution and delivery by the Parties of the Instruments of Conveyance set forth in Section 1.4.

6.1.10 Execution and delivery by the Company and the parties thereto of the Management Agreement in substantially the form attached hereto as Exhibit C (the "Management Agreement").

6.1.12 Execution and delivery by the Company and the Parties of the Operating Agreement in substantially the form attached hereto as Exhibit D (the "Operating Agreement").

6.1.13 The Company's receipt of current as-built surveys of the Real Property, and the Boyer Property and the Capstone Property described on Schedule 2.13, prepared and certified by a registered surveyor licensed in the State of Nevada (the "Surveys"). The Surveys shall be in form and substance mutually satisfactory to the Parties.

6.1.14 Execution and delivery by Valley, Universal Health Services, Inc. and the Company of the Schwartz Sublease in substantially the form attached hereto as Exhibit E (the "Schwartz Sublease").

6.1.15 Execution and delivery by Valley, Summerlin and Universal Health Services, Inc. of the Survey Agreement in substantially the form attached hereto as Exhibit F (the "Survey Agreement").

7. NATURE AND SURVIVAL OF REPRESENTATIONS AND WARRANTIES; INDEMNIFICATION.

7.1 EVENTS OF DEFAULT. A breach as a result of the failure of a Party to perform any of its agreements, covenants and obligations under this Agreement, shall be considered a default hereunder giving rise to the indemnification set forth in Section 7.3 hereof.

7.2 SURVIVAL OF REPRESENTATIONS, ETC. All representations and warranties made by the Parties in this Agreement or in any exhibit, schedules or certificates hereof or in connection with the transactions contemplated hereby shall terminate at the Closing Date, and thereafter be of no further force or effect and no action or cause of action on account thereof shall survive. All other agreements, covenants and obligations of the Parties in this Agreement or in any exhibit,

schedules, certificate, document or instrument delivered pursuant to the provisions hereof or in connection with the transactions contemplated hereby, and the remedies of the Parties with respect thereto, shall survive the closing of the transactions contemplated by this Agreement.

7.3 INDEMNIFICATION. From and after the Closing Date, each Party, as the case may be (an "Indemnifying Party"), severally and not jointly, shall indemnify and hold the other Party and the Company, as the case may be, and their respective affiliates, agents and representatives (an "Indemnified Party"), harmless from and against any and all claims, losses, expenses, damages or liabilities arising out of or relating to any of the following: (i) any breach, violation or nonperformance of a covenant, agreement or obligation to be performed hereunder on the part of any Indemnifying Party; (ii) any claims against, or liabilities or obligations of an Indemnifying Party not specifically assumed by an Indemnified Party pursuant to this Agreement; or (iii) any actions, judgments, costs and expenses (including reasonable attorneys' fees and all other expenses incurred in investigating, preparing or defending any litigation or proceedings, commenced or threatened) incident to any of the foregoing or the enforcement of this Section. In addition to the foregoing, following the Merger the Parties shall cause the Company to indemnify and hold the Parties and their affiliates harmless from and against any and all claims, losses, expenses, damages or liabilities arising out of or relating to the Company's assumption of the Assumed Liabilities and any actions, judgments,

costs and expenses (including reasonable attorneys' fees and all other expenses incurred in investigating, preparing or defending any litigation or proceedings, commenced or threatened) incident to the foregoing. Any indemnification payment pursuant to the foregoing shall include interest at a floating rate equal to the prime rate of Citibank N.A., from time to time, from the date the Indemnified Party provides the Indemnifying Party notice of the loss, cost, expenses or damages until the date of payment.

7.4 REPRESENTATION, COOPERATION AND SETTLEMENT. (a) An Indemnified Party agrees to give prompt written notice to an Indemnifying Party of any claim against it which might give rise to a claim by such Indemnified Party based on the indemnity agreement contained in Section 7.3 hereof, stating the nature and basis of the first-mentioned claim and the amount thereof; provided, that the failure of the Indemnified Party to give the Indemnifying Party prompt notice shall not relieve the Indemnifying Party of any of its obligations hereunder, but may create a cause of action for breach for damages directly attributable to such delay.

(b) The Indemnifying Party shall have full responsibility and authority with respect to the payment, settlement, compromise or other disposition of any third party dispute, action, suit or proceeding subject to indemnification by such Indemnifying Party hereunder, including, without limitation, the right to conduct and control all negotiations with respect to the settlement, compromise or other disposition thereof, and the Indemnified Party agrees to cooperate with the Indemnifying Party in any reasonable manner requested by the Indemnifying Party in connection with any such negotiations. The Indemnified Party shall have the right, without prejudice to the Indemnifying Party's rights under this Agreement, at the Indemnified Party's sole expense, to be represented by counsel of its own choosing and with whom counsel for the Indemnifying Party shall confer in connection with the defense of any such action, suit or proceeding. The Parties agree to render to each other such assistance as may reasonably be requested in order to insure the proper and adequate defense of any such action, suit or proceeding. Notwithstanding the foregoing, the Indemnifying Party may compromise and settle any claim, action, or suit to which it must indemnify an Indemnified Party hereunder, provided that it gives the Indemnified Party advance notice of any proposed compromise or settlement and shall obtain the consent of the Indemnified Party to such proposed compromise or settlement, which consent shall not be unreasonably withheld.

8. TRANSACTIONS SUBSEQUENT TO THE CLOSING DATE

8.1 ACCESS TO RECORDS. From time to time after the Closing Date, upon the request of the Company, each Party will provide the Company with reasonable access to any records, documents and data relating to the Facilities Assets or any of the Parties

retained by any of the Parties wherever located. From time to time after the Closing Date, upon the request of either Party, the other Party shall cause the Company to make available to the requesting Party any records, documents and data relating to the Facilities Assets acquired by the Company as needed for any lawful purpose (including such Party's inspection and copying of the same), and each Party shall have the same rights of access to inspect and copy that such Party had prior to the Closing Date; provided, however, that any records, documents and data pertaining to a particular Facility delivered to or made available to such Party and its representatives will be treated as strictly confidential by such Party and its representatives, will not be directly or indirectly divulged, disclosed or communicated to any other person other than such Party and its representatives who are reasonably required to have access to such information (unless such Party is compelled to disclose the same by judicial or administrative process), and will be returned to the Company when such Party's use therefor has terminated. The Parties shall cause the Company to instruct the appropriate employees of the Facilities to cooperate in providing access to such records to the Parties and their authorized representatives as contemplated herein. Access to such records shall be, wherever reasonably possible, during normal business hours, with reasonable prior written notice to the Company of the time when such access shall be needed. The Parties shall cause the Company to provide sufficient office space to such requesting Party without charge to conduct the activities described herein. The Parties' employees, representatives and agents shall conduct themselves in such a manner so that the Company's normal business activities shall not be unduly or unnecessarily disrupted. For a period of seven (7) years following the Closing Date, neither of the Parties shall, and each of the Parties shall cause the Company not to, discard, destroy or otherwise dispose of records, documents and data relating to the Facilities Assets or the Parties without first making such records, documents and data available to the other Party for inspection and copying. The Parties shall cause the Company to retain the records, documents and data pertaining to a particular Facility at such Facility (or at such other locations as the Company and the Parties shall determine by their mutual agreement from time to time) at the Company's cost, until the expiration of seven (7) years from the Closing Date.

8.2 LITIGATION COOPERATION. After the Closing Date, upon prior reasonable written request, each Party shall cooperate with the other and with the Company, at the requesting Party's expense (but including only out-of-pocket expenses to third parties and not the costs incurred by any Party for the wages or other benefits paid to its officers, directors or employees), in furnishing information, testimony and other assistance in connection with any actions, tax or cost report audits, proceedings, arrangements or disputes involving any of the Parties hereto (other than in connection with disputes between the Parties hereto) and based upon contracts,

arrangements or acts of any Party or any of their respective affiliates which were in effect or occurred on or prior to the Closing Date and which related to the Facilities Assets, including, without limitation, arranging discussions with, and the calling as witnesses of, officers, directors, employees, agents and representatives of the Company.

9. TERMINATION.

9.1 METHODS OF TERMINATION. The transactions contemplated herein may be terminated at any time before or after approval thereof by the Parties, but not later than the Closing Date:

(i) By mutual consent of the Parties; or

(ii) by a Party after March 1, 1998 if any of the conditions in Section 6.1 to the benefit of such Party shall not have been met or waived in writing prior to such date.

9.2 PROCEDURE UPON TERMINATION. In the event of termination pursuant to Section 9.1 hereof, written notice thereof shall forthwith be given to the other Party and the transactions contemplated by this Agreement shall be terminated, without further action by any party. If the transactions contemplated by this Agreement are terminated as provided herein:

(i) Each Party will redeliver all documents, work papers and other material of the other Party relating to the transactions contemplated hereby, whether so obtained before or after the execution of this Agreement, to the Party furnishing the same; and

(ii) No Party shall have any liability or further obligation to the other Party to this Agreement other than the confidentiality obligations set forth in Section 10.6 hereof.

10. MISCELLANEOUS.

10.1 NOTICE. Any notice required or permitted hereunder shall be in writing and shall be sufficiently given if personally delivered or mailed by certified or registered mail, return receipt requested, addressed as follows:

IF TO VALLEY: Universal Health Services, Inc.
367 South Gulph Road
Box 61558
King of Prussia, Pennsylvania 19406
Attention: Michael G. Servais, Sr. Vice President

COPIES TO: Bruce Gilbert, Esq.
General Counsel
Universal Health Services, Inc.
367 South Gulph Road
Box 61558
King of Prussia, Pennsylvania 19406

AND

Klett Lieber Rooney & Schorling
A Professional Corporation
40th Floor, One Oxford Centre
Pittsburgh, Pennsylvania 15219
Attention: Robert T. Harper, Esq.

IF TO DESERT SPRINGS:

Quorum Health Group, Inc.
103 Continental Place
Brentwood, Tennessee 37027
Attention: Ashby Q. Burks,
Vice President/General Counsel
Facsimile No. (615) 371-4788

COPIES TO: Ernest E. Hyne, II, Esquire
Harwell Howard Hyne
Gabbert & Manner, P.C.
1800 First American Center
315 Deaderick Street
Nashville, Tennessee 37238

IF TO THE COMPANY: Valley Health System LLC
c/o Quorum Health Group, Inc.
103 Continental Place
Brentwood, Tennessee 37027
Attention: Ashby Q. Burks,
Vice President/General Counsel
Facsimile No. (615) 371-4788

and

Valley Health System LLC
c/o Universal Health Services, Inc.
367 South Gulph Road
Box 61558
King of Prussia, Pennsylvania 19406
Attention: Michael G. Servais, Sr. Vice President

(or to such other address as any Party or the Company, as the case may be, shall specify by written notice so given), and shall be deemed to have been duly delivered: (a) if delivered personally or sent by facsimile, on the date received and (b) if delivered by overnight courier, on the day after mailing.

10.2 EXECUTION OF ADDITIONAL DOCUMENTS. The Parties will at any time, and from time to time after the Closing Date, upon request of the other Party, execute, acknowledge and deliver all such further acts, deeds, assignments, transfers, conveyances, powers of attorney and assurances as may be required to carry out the intent of this Agreement and to transfer and vest title to any Facilities Assets being transferred hereunder, and to protect the right, title and interest in and enjoyment of all of the Facilities Assets granted, assigned, transferred, delivered and conveyed pursuant to this Agreement with all costs being borne by the Company; provided, however, that this Agreement shall be effective regardless of whether any such additional documents are executed.

10.3 WAIVERS AND AMENDMENT.

(a) Each Party may, by written notice to each other Party executed by a properly authorized officer, (i) extend the time for the performance of any of the obligations or other actions of the other; (ii) waive any inaccuracies in the representations or warranties of the other contained in this Agreement; (iii) waive compliance with any of the covenants of the other contained in this Agreement; and (iv) waive or modify performance of any of the obligations of the other.

(b) This Agreement may be amended, modified or supplemented only by a written instrument executed by all the Parties. Except as provided in the preceding sentence, no action taken pursuant to this Agreement, including, without limitation, any investigation by or on behalf of any Party, shall be deemed to constitute a waiver by the Party taking such action of compliance with any representations, warranties, covenants or agreements contained herein. The waiver by any Party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

10.4 EXPENSES. Whether or not the transactions contemplated by this Agreement are consummated, each Party shall pay the fees and expenses of their respective counsel, accountants, other experts and all other expenses incurred by them incident to the negotiation, preparation and execution of this Agreement and the performance by them of their obligations hereunder.

10.5 OCCURRENCE OF CONDITIONS PRECEDENT. Each of the Parties agrees to use its reasonable efforts to cause all conditions precedent to its obligations under this Agreement to be satisfied.

10.6 CONFIDENTIALITY OBLIGATIONS; PUBLIC ANNOUNCEMENTS.

(a) Each Party agrees that it will treat in confidence all documents, materials and other information which it shall have obtained regarding the other Party during the course of the negotiations leading to the consummation of the transactions contemplated hereby (whether obtained before or after the date of this Agreement), the investigation provided for herein and the preparation of this Agreement and other related documents, and, in the event the transactions contemplated hereby shall not be consummated, each Party will return to the other Party all copies of non-public documents and materials which have been furnished in connection therewith. The obligation of each Party to treat such documents, materials and other information in confidence shall not apply to any information which (i) such Party can demonstrate was already lawfully in its possession prior to the disclosure thereof by the other Party, (ii) is known to the public and did not become so known through any violation of a legal obligation, (iii) became known to the public through no fault of such Party or (iv) is later lawfully acquired by such Party from other sources. Except as required by law and except for disclosures to its advisors, who shall be advised of the confidentiality requirements herein, no Party shall disclose to any person the identity of the other Party, the terms or provisions of this Agreement or the content of any discussions or communications between any of the Parties.

(b) Any public announcement or similar publicity with respect to this Agreement or the transactions contemplated hereby will be issued, if at all, at such time and in such manner as the Parties determine. Unless consented to by each Party in advance or required by law, prior to the Closing Date, each Party shall keep this Agreement strictly confidential and may not make any disclosure of this Agreement to any person. The Parties will consult with each other concerning the means by which their respective employees, customers, and suppliers and others having dealings with them will be informed of the transactions contemplated by this Agreement.

10.7 BINDING EFFECT; BENEFITS. Subject to Section 10.14, this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, successors, executors, administrators and assigns. Notwithstanding anything contained in this Agreement to the contrary, nothing in this Agreement, expressed or implied, is intended to confer on any person other than the Parties or their respective heirs, successors, executors, administrators and assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement.

10.8 ENTIRE AGREEMENT. This Agreement, together with the Exhibits, Schedules and other documents contemplated hereby, constitute the final written expression of all of the agreements between the Parties, and is a complete and exclusive statement of those terms. It supersedes all prior understandings and negotiations (written and oral) concerning the matters specified herein. Any representations, promises, warranties or statements made by a Party that differ in any way from the terms of this written Agreement and the Exhibits, Schedules and other documents contemplated hereby, shall be given no force or effect. The Parties specifically represent, each to the other, that there are no additional or supplemental agreements between them related in any way to the matters herein contained unless specifically included or referred to herein. No addition to or modification of any provision of this Agreement shall be binding upon any party unless made in writing and signed by all Parties.

10.9 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Nevada exclusive of the conflict of law provisions thereof.

10.10 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

10.11 HEADINGS. Headings of the Articles and Sections of this Agreement are for the convenience of the Parties only, and shall be given no substantive or interpretive effect whatsoever.

10.12 INCORPORATION OF EXHIBITS AND SCHEDULES. All Exhibits and Schedules attached hereto are by this reference incorporated herein and made a part hereof for all purposes as if fully set forth herein.

10.13 SEVERABILITY. If for any reason whatsoever, any one or more of the provisions of this Agreement shall be held or deemed to be inoperative, unenforceable or invalid as applied to any particular case or in all cases, such circumstances shall not have the effect of rendering such provision invalid in any other case or of rendering any of the other provisions of this Agreement inoperative, unenforceable or invalid.

10.14 ASSIGNABILITY. Neither this Agreement nor any of the Parties' rights hereunder shall be assignable by any Party hereto without the prior written consent of the other Party.

[SIGNATURES ARE ON THE NEXT FOLLOWING PAGES]

IN WITNESS WHEREOF, the Parties have executed this Agreement and caused the same to be duly delivered on their behalf on the day and year hereinabove first set forth.

VALLEY MEDICAL CENTER, INC.

By:_________________________

Title:______________________

NC-DSH, INC.

By:_________________________

Title:______________________

JOINDER AGREEMENT

The undersigned hereby agrees to become a party to that certain Contribution Agreement (the "Contribution Agreement") by and between Valley Hospital Medical Center, Inc., a Nevada corporation ("Valley") and NC-DSH, Inc., a Nevada corporation ("Desert Springs") for the sole purpose of unconditionally guaranteeing the performance of the obligations of and payments by Valley under Section 7.3 of the Contribution Agreement and for no other purpose. By executing this Joinder Agreement the undersigned hereby guarantees the due and punctual payment and performance by Valley of its obligations under Section 7.3 of the Contribution Agreement. This Joinder Agreement may not be terminated by the undersigned until such time as all amounts due and obligations owing or to be owed by Valley under such Section shall have been fully paid and performed. In the event of breach under Section 7.3, the parties thereto shall have the right to proceed against the undersigned or Valley separately, jointly, or against the undersigned without first proceeding against Valley. Bankruptcy or the like of Valley shall be no defense to the undersigned.

IN WITNESS WHEREOF, and intending to be legally bound hereby, the undersigned has executed this Joinder Agreement this 30th day of January, 1998.

UNIVERSAL HEALTH SERVICES, INC.

By:________________________________

Title:_____________________________

JOINDER AGREEMENT

The undersigned hereby agrees to become a party to that certain Contribution Agreement (the "Contribution Agreement") by and between Valley Hospital Medical Center, Inc., a Nevada corporation ("Valley") and NC-DSH, Inc., a Nevada corporation ("Desert Springs") for the sole purpose of unconditionally guaranteeing the performance of the obligations of and payments by Desert Springs under Section 7.3 of the Contribution Agreement and for no other purpose. By executing this Joinder Agreement the undersigned hereby guarantees the due and punctual payment and performance by Desert Springs of its obligations under Section 7.3 of the Contribution Agreement. This Joinder Agreement may not be terminated by the undersigned until such time as all amounts due and obligations owing or to be owed by Desert Springs under such Section shall have been fully paid and performed. In the event of breach under Section 7.3, the parties thereto shall have the right to proceed against the undersigned or Desert Springs separately, jointly, or against the undersigned without first proceeding against Desert Springs. Bankruptcy or the like of Desert Springs shall be no defense to the undersigned.

IN WITNESS WHEREOF, and intending to be legally bound hereby, the undersigned has executed this Joinder Agreement this 30th day of January, 1998.

QUORUM HEALTH GROUP, INC.

By:________________________________
Roland P. Richardson

Title: Senior Vice President

SCHEDULES, EXHIBITS AND APPENDICES
TO CONTRIBUTION AGREEMENT

Schedule	
1.1(b)	Tangible Personal Property
1.1(n)	Plaza Surgery Center
1.2(a)	UHS Excluded Businesses and Real Estate
1.2(i)	Other Excluded Assets
1.3.1	Assumed Contracts
1.6(c)	List of Additional Assumed Liabilities
1.7(q)	Liens and Mortgages Not Released at Closing
2.2	Authorization; Validity and Effect of Agreements
2.3	Subsidiaries; Debt and Equity Securities
2.4	Capitalization of Parties; Outstanding Rights, Warrants, etc.
2.6	Financial Statements
2.7	Absence of Undisclosed Liabilities
2.8	Absence of Certain Changes or Events
2.9	Taxes
2.10	Real Property
2.10(c)	Navigable Water
2.10(h)	Liens on Real Property
2.10(j)	Leases of Real Property
2.11	Exceptions to Sufficiency of Facilities Assets
2.13	List of Contracts and Other Data
2.14	Exceptions to No Breach or Default
2.15	Labor Controversies

2.16	Litigation
2.18	Licenses; Permits; Authorizations
2.19	Compliance with Applicable Law; Environmental Laws
2.20.1	Employee Benefit Plans
2.20.2	Employees
2.22	Trade Notes and Accounts Receivable; Aging Schedule; Prepayments
2.25	Insurance Policies; Pending Insurance Claims
2.26(a)	Professional Staff
2.26(b)	Medicare and Medicaid Participation
2.26(c)	Cost Reports
2.28	Related Party Transactions
4.9	Additional Properties and Assets

Exhibit	
A	Agreement and of Merger
B	Form of Opinion of Parties' Counsel
C	Form of Management Agreement
D	Form of Operating Agreement
E	Form of Schwartz Sublease
F	Form of Survey Agreement

EXHIBIT 10.31

SUMMERLIN CONTRIBUTION AGREEMENT

Table of Contents

		Page No.
1.	Contribution of Assets; Purchase and Sale of Membership Interest	2
1.1	Creation of Subsidiary; Agreement to Contribute; Purchase and Sale of Membership Interest	2
1.2	Excluded Assets	4
1.3	Contract Assignments	5
1.4	Instruments of Conveyance	6
1.5	Issuance of Membership Interest to Desert Springs; Working Capital Shortage/Overage	6
1.6	Liabilities Assumed	8
1.7	Liabilities Not Assumed	8
1.8	Closing	10
2.	Representations and Warranties of Summerlin	11
2.1	Existence; Good Standing; Partnership Authority	11
2.2	Authorization; Validity and Effect of Agreements	11
2.3	Subsidiaries	12
2.4	Capitalization	12
2.5	Records	13
2.6	Financial Statements	13
2.7	Absence of Undisclosed Liabilities	13
2.8	Absence of Certain Changes or Events Since the Date of the Summerlin Balance Sheet	13
2.9	Taxes	15
2.10	Real Property	16
2.11	Title to Property and Assets; Sufficiency of Facilities Assets	18
2.12	Condition of Property	18
2.13	List of Contracts and Other Data	19
2.14	No Breach or Default	20
2.15	Labor Controversies	21
2.16	Litigation	21
2.17	Patents; Trademarks, Etc	22
2.18	Licenses; Permits; Authorizations	22
2.19	Compliance with Applicable Law; Environmental Laws	22
2.20	Employment Benefit Plans; Employees and Employee Relations	25
2.21	Adverse Agreements; No Adverse Change	26
2.22	Trade Notes and Accounts Receivable; Trade Accounts Payable; Prepaid Contracts	26
2.23	Inventories and Supplies	27

2.24 Illegal Payments.. 27
2.25 Insurance Policies.. 27
2.26 Professional Staff, Medicare, Medicaid and Other Health Care Programs.. 28
2.27 UHS Facility Surveys.. 39
2.28 Related Party Transactions.. 39
2.29 No Brokers.. 30
2.30 No Misrepresentation or Omission.................................. 30

3. Representations and Warranties of Desert Springs....................... 39
3.1 Existence; Good Standing; Corporate Authority...................... 39
3.2 Authorization; Validity and Effect of Agreements................... 39
3.3 No Brokers... 31

4. Covenants of the Summerlin and Desert Springs.......................... 33
4.1 Access to UHS Facilities and Additional Information... 32
4.2 Operations...332
4.3 Negative Covenants... 33
4.4 Governmental Approvals... 34
4.5 Insurance Ratings.. 34
4.6 Employees; Employee Benefit Plans.................................. 35
4.7 Further Acts and Assurances.. 35
4.8 Valley Transaction... 35
4.9 Additional Properties and Assets [Intentionally Omitted].. 36

5. Matters Pertaining to the Company...................................... 36
5.1 Employee Matters... 36
5.2 Further Acts and Assurances.. 37

6. Conditions of Closing.. 37
6.1 Conditions of Closing.. 37

7. Nature and Survival of Representations and Warranties; Indemnification....................................... 40
7.1 Events of Default.. 40
7.2 Survival of Representations, Etc................................... 41
7.3 Indemnification.. 41
7.4 Representation, Cooperation and Settlement......................... 42

8. Transactions Subsequent to the Closing Date............................ 42
8.1 Access to Records.. 42
8.2 Litigation Cooperation... 43

9. Termination.. 44
9.1 Methods of Termination... 44
9.2 Procedure Upon Termination... 44

10. Miscellaneous.. 44
10.1 Notice.. 44
10.2 Execution of Additional Documents.............................. 46
10.3 Waivers and Amendment.. 46
10.4 Expenses.. 47
10.5 Occurrence of Conditions Precedent............................. 47
10.6 Confidentiality Obligations; Public Announcements............... 47
10.7 Binding Effect; Benefits.. 48
10.8 Entire Agreement... 48
10.9 Governing Law.. 48
10.10 Counterparts.. 48
10.11 Headings.. 48
10.12 Incorporation of Exhibits and Schedules........................ 49
10.13 Severability.. 49
10.14 Assignability... 49

Joinder Agreement - Universal Health Services, Inc..................... 51
Joinder Agreement - Quorum Health Group, Inc........................... 52

SUMMERLIN CONTRIBUTION AGREEMENT

This Agreement (the "Agreement") is dated this 30th day of January, 1998, by and among SUMMERLIN HOSPITAL MEDICAL CENTER, L.P.,a Delaware limited partnership formerly known as Summerlin Medical Center, L.P. ("Summerlin") and NC-DSH, INC., a Nevada corporation ("Desert Springs")(Summerlin and Desert Springs are sometimes hereinafter referred to collectively as the "Parties" and individually as a "Party").

WITNESSETH:

WHEREAS, Summerlin owns all of the right, title and interest in and to certain assets used to operate Summerlin Hospital Medical Center and certain related businesses operated by Summerlin in and around Las Vegas, Nevada (collectively, the "UHS Facilities"); and

WHEREAS, Summerlin desires to operate the UHS Facilities as a limited liability company pursuant to the Limited Liability Company Act as enacted in the State of Delaware (the "LLC Act"); and

WHEREAS, pursuant to the terms of this Agreement Summerlin desires to contribute the UHS Facilities in exchange for a 100% membership interest in such limited liability company, such membership interest to be subsequently reduced to a 73.885% membership interest pursuant to the terms of this Agreement; and

WHEREAS, Desert Springs desires to acquire from Summerlin, subsequent to the formation of such limited liability company and the contribution of the UHS Facilities by Summerlin, a 26.115% membership interest in such limited liability company in exchange for the payment of $23,078,619 to Summerlin; and

WHEREAS, the Parties desire to enter into this Agreement for the purpose of setting forth their respective rights and obligations as hereinafter set forth.

NOW, THEREFORE, in consideration of the premises, the provisions and the respective agreements hereinafter set forth, the Parties, intending to be legally bound hereby, agree as follows:

1. CONTRIBUTION OF ASSETS; PURCHASE AND SALE OF MEMBERSHIP INTEREST.

1.1 CREATION OF SUBSIDIARY; AGREEMENT TO CONTRIBUTE; PURCHASE AND SALE OF MEMBERSHIP INTEREST. On or prior to the Closing Date (as hereinafter defined) Summerlin shall create Summerlin Hospital Medical Center LLC, a wholly owned limited liability company (the "Company") pursuant to the LLC Act. Upon the terms and subject to the conditions set forth in this Agreement, on the Closing Date, Summerlin shall contribute, convey, assign, transfer and deliver to the Company all of Summerlin's right, title and interest in and to the Facilities Assets (as defined below), except for the Excluded Assets (as hereinafter defined), free and clear of all liens, charges, claims, pledges, security interests and encumbrances of any nature whatsoever (collectively, "Liens"), except for Permitted Encumbrances (as hereinafter defined). Immediately following the contribution, conveyance, assignment, transfer and delivery of the Facilities Assets in accordance with the preceding sentence, Desert Springs shall purchase from Summerlin, and Summerlin shall sell and transfer to Desert Springs, a 26.115% membership interest in the Company, and in exchange therefore, Desert Springs shall pay and deliver to Summerlin, by wire transfer of immediately available funds to an account or accounts designated by Summerlin, the sum of $23,078,619 (the "Desert Springs Payment"). Following the contribution, conveyance, assignment, transfer and delivery of the Facilities Assets and the payment and delivery of the Desert Springs Payment as provided in this Section 1.1, Summerlin shall own a 73.885% membership interest in the Company and Desert Springs shall own a 26.115% membership interest in the Company. The "Facilities Assets" shall mean and include all those personal, tangible and intangible properties, and the real properties and improvements of Summerlin used in connection with the operation of the UHS Facilities as set forth below, other than the Excluded Assets, including, without limitation,(i) the going concern value of the UHS Facilities, if any, and (ii) the following:

(a) all fee or leasehold title to all real property, including the real property described in Schedule 2.10, which Schedule identifies the property as fee or leasehold, together with all improvements, buildings and fixtures located thereon or therein, including the UHS Facilities and all construction in progress (such real properties owned in fee are hereafter collectively, the "Real Property");

(b) all equipment, computers, computer hardware and software (subject to any restrictions by the licensor on the

assignment thereof), tools, supplies, furniture, vehicles and other tangible personal property and assets owned or leased by Summerlin related to the UHS Facilities as of the date of this Agreement, as such items may be modified prior to the Closing Date in the ordinary course of business, and including without limitation those items set forth on Schedule 1.1(b);

(c) all items of inventory listed on the Summerlin Balance Sheet (as hereinafter defined), as such items may be modified prior to the Closing Date in the ordinary course of business;

(d) all patients accounts, notes and other receivables, whether or not written off, or recorded or not recorded, exclusive of any third party cost report payables or receivables, petty cash and those prepaid expenses usable by the Company;

(e) all financial records located at the UHS Facilities and all patient, medical staff, research and development, and other records (including equipment records, medical/ administrative libraries, medical records, documents, production reports and records, personnel records, catalogs, books, records, files, equipment logs and operating manuals) located at the UHS Facilities or necessary for the operation of the UHS Facilities;

(f) all of Summerlin's interest in the Assumed Contracts, as defined in Section 1.3.1;

(g) all licenses, permits and other governmental approvals (including certificates of need), to the extent assignable, held or used by Summerlin in connection with the ownership, development and operations of the UHS Facilities (including any pending or approved governmental approvals regarding the UHS Facilities);

(h) all marks, names, trademarks, service marks, patents, patent rights, assumed names, logos and copyrights used in the business of the UHS Facilities;

(i) the interest in all property, real, personal or mixed, tangible or, to the extent assignable, intangible, arising or acquired in the ordinary and regular course of Summerlin's business in connection with the UHS Facilities between the date hereof and the Closing Date;

(j) all insurance proceeds (including applicable deductibles, copayments or self-insured requirements) arising in connection with damage to the UHS Facilities occurring prior to the Closing Date, to the extent not expended for the repair or restoration of the UHS Facilities;

(k) all assets included in the Summerlin Balance Sheet generally as "inventories", "property, plant or equipment", and "other assets";

(l) all of Summerlin's membership interest in Oasis Health System LLC (25% of which is owned by Summerlin); and

(m) all other property of every kind, character or description, to the extent assignable, owned by Summerlin and used or held for use in the business of the UHS Facilities, whether or not reflected on the Financial Statements (as hereinafter defined) of Summerlin, located at the UHS Facilities or necessary for the operation of the UHS Facilities and whether or not similar to the things specifically set forth above, except the Excluded Assets.

Except as expressly set forth in this Agreement, including the Schedules and Exhibits hereto, all of the Facilities Assets contributed by Summerlin to the Company shall be contributed on an "as is" basis.

1.2 EXCLUDED ASSETS. The following items are not part of the contributions contemplated hereunder and are excluded from the Facilities Assets (collectively, the "Excluded Assets");

(a) all of Summerlin's deferred taxes and intercompany receivables;

(b) personnel records and any other records which Summerlin is required by law to retain in its possession, but only to the extent such records are not necessary for the continued operation of the UHS Facilities in the manner in which they are currently being operated;

(c) all claims for amounts due, or that may become due from Medicare, Medicaid or any other health care payment intermediary resulting from cost reports for periods through the Closing Date;

(d) all refunds relating to any federal, state, local or foreign taxes paid by, or on behalf or for the benefit of Summerlin or, to the extent they relate to the period prior to

the Closing Date, the UHS Facilities, whether received prior to or after the Closing Date;

(e) any proprietary information contained in Summerlin's employee or operation manuals;

(f) Summerlin's corporate and financial records; and

(g) cash and cash equivalents.

1.3 CONTRACT ASSIGNMENTS.

1.3.1 ASSIGNMENT OF INTEREST IN CONTRACTS. Except for intercompany and non-physician employment contracts, on the Closing Date and upon and subject to the terms and conditions set forth in this Agreement, Summerlin shall transfer or cause to be transferred and assign or cause to be assigned to the Company, and the Company shall assume and perform all of Summerlin's interest in (including all rights, benefits and obligations) all commitments, contracts, leases, licenses, agreements and understandings, and all outstanding offers or solicitations to enter into any of the foregoing, including those described on Schedule 1.3.1 hereto (the "Assumed Contracts").

1.3.2 CONSENTS TO ASSIGNMENTS. Notwithstanding anything in this Agreement to the contrary, this Agreement shall not constitute an agreement to assign or transfer any of the Assumed Contracts or part thereof or right or benefit arising thereunder or resulting therefrom if an attempted assignment or transfer thereof, without the consent of a third party thereto, would constitute a breach thereof or in any way affect the rights of the Company following the Closing Date. If such consent is not obtained, or if an attempted assignment thereof would be ineffective or would affect the rights of the Company following the Closing Date so that the Company would not in fact receive all such rights, Summerlin (i) shall cooperate with the Company in its request in endeavoring to obtain such consent promptly at no cost to the Company, and (ii) if any such consent is unobtainable, shall cooperate with the Company in any reasonable arrangement (the "Assignment Substitute") designed to provide the Company the benefits under any such Assumed Contract or part thereof or any right or benefit arising thereunder or resulting therefrom, including enforcement for the benefit of the Company of any and all rights of Summerlin against a third party arising out of the breach or cancellation by such third party or otherwise. Summerlin shall, to the extent necessary, perform under the Assignment Substitute without a fee to the Company except the consideration being tendered hereunder.

1.4 INSTRUMENTS OF CONVEYANCE.

On the Closing Date, Summerlin shall deliver to the Company such deeds (in the case of the real property and the improvements thereon described in Schedules 2.10 hereto, a special warranty deed or the equivalent thereof in use in accordance with local practice), bills of sale, endorsements, assignments and other good and sufficient instruments of conveyance and assignment as shall be effective to vest in the Company all of Summerlin's right, title and interest in and to the Facilities Assets, free and clear of all Liens except for the Permitted Encumbrances. Simultaneously with such delivery, Summerlin will take all reasonable additional steps as may be necessary to put the Company in possession of the Facilities Assets. Summerlin shall pay all transfer costs, title insurance fees, recording fees and transfer or stamp taxes or similar charges payable by reason of the contribution, conveyance, assignment, transfer and delivery hereunder of the Facilities Assets.

1.5 ISSUANCE OF MEMBERSHIP INTEREST TO DESERT SPRINGS; WORKING CAPITAL SHORTAGE/OVERAGE.

1.5.1 On the Closing Date, immediately following the issuance of the Summerlin membership interest to Summerlin in accordance with Section 1.1 hereof, Summerlin shall sell, transfer and deliver to Desert Springs, and Desert Springs shall purchase and acquire from Summerlin, a 26.115% membership interest in the Company. Accordingly, in consideration of and subject to the payment of the Desert Springs Payment by Desert Springs and the receipt by Summerlin of the full amount of such Desert Springs Payment in immediately available funds as provided in Section 1.1 hereof, on the Closing Date Summerlin shall cause the Company to issue a 26.115% membership interest in the Company to Desert Springs, which 26.115% membership interest in the Company shall be free and clear of all Liens except for those listed or described on Schedule 1.5 (the "Permissible Liens").

1.5.2 Within 45 days after the Closing Date, the Parties will determine the amount of Working Capital (as defined below) contributed to the Company by Summerlin as of the Closing Date. Desert Springs will pay to Summerlin in cash 26.115% of the amount of the Working Capital. For the sole purpose of determining the amount to be paid by Desert Springs to Summerlin on account of Working Capital, Working Capital will be defined as the sum of the following items that have been contributed to or assumed by the Company, all valued in accordance with generally

accepted accounting principles, consistently applied (unless otherwise specified):

(a) patient accounts receivable, net of allowances for contractual adjustments and discounts and bad debts;

(b) plus inventories, based on a physical count at the Closing Date, priced at latest invoice cost, and including only those items and areas that have historically been counted;

(c) plus prepaid expenses, but only to the extent that they are usable by the Company;

(d) plus other receivables, net of allowances for uncollectibles;

(e) less trade accounts payable;

(f) less accrued compensation and related taxes thereon and related liabilities, including accrued vacation, sick leave payable in cash for reasons other than actual absence, paid time off, or the like;

(g) less other accrued liabilities and expenses;

(h) less the present value (computed using the prime rate as the discount factor) of remaining payments due under any capitalized lease included in the Assumed Contracts; and

(i) less any other liabilities assumed by the Company to the extent such liabilities are to be included on the balance sheet under generally accepted accounting principles.

Each of the Parties will work together in good faith to agree on the amount of Working Capital and the amount to be paid by Desert Springs to Summerlin pursuant to this Section 1.5.2. No later than 45 days after the Closing Date, the Parties hereto shall prepare the "Final Closing Statement" reflecting the items listed above determined as set forth above. If the Parties are unable to agree on the Final Closing Statement within the 45 day period, they shall appoint Coopers & Lybrand, a firm of independent certified public accounts of recognized national standing (the "Accountants"), to make such determination, which determination shall be final and binding on the Parties hereto for the purposes of this Agreement, and Summerlin and Desert Springs shall each pay one-half of the fee. Each Party represents that the Accountants are not its auditor. Upon determination of the Final Closing Statement, whether by

agreement of the Parties or by determination of the Accountants, Desert Springs shall immediately pay to Summerlin in cash 26.115% of the amount of the Working Capital.

1.6 LIABILITIES ASSUMED. In further consideration for the contribution of the Facilities Assets, on and as of the Closing Date, subject to the exclusion of liabilities described in Section 1.7 below, the Parties acknowledge and agree that the Company, following the contribution of the Facilities Assets, shall assume and agree to pay, perform and discharge the following liabilities (collectively, the "Assumed Liabilities"):

(a) all current liabilities of Summerlin (except for the current portion of long term debt, accrued interest, pension plan liabilities, employer benefit plan liabilities, intercompany liabilities and self-insurance costs);

(b) all obligations under the Assumed Contracts and Section 4.6 hereof; and

(c) such other liabilities of Summerlin which the Company agrees in writing at or prior to the Closing Date that the Company will assume, which liabilities are listed on Schedule 1.6(c).

1.7 LIABILITIES NOT ASSUMED. The Company, following the contribution of the Facilities Assets, shall assume only those liabilities and obligations specified in Section 1.6 above. Without limiting the generality of the foregoing sentence, the Company shall not assume and Summerlin shall retain and be responsible for the following obligations and liabilities to the extent they relate to Summerlin (each reference in this Section 1.7 to Summerlin shall include Summerlin and its affiliates):

(a) any and all obligations for the payment of any long term debt existing at the Closing Date (including the current portion thereof) relating to Summerlin and whether or not set forth on the Summerlin Balance Sheet;

(b) any and all accrued interest payable by Summerlin in respect of periods through the Closing Date;

(c) liabilities or obligations of Summerlin arising under Medicare, Medicaid, Blue Cross or other comparable third party payor programs (the "Government Reimbursement Programs") for periods through the Closing Date and as a result of the consummation of the transactions contemplated herein, including reimbursement recapture or any other adjustments;

(d) liabilities or obligations for Taxes (as hereinafter defined) of Summerlin in respect of periods prior to the Closing Date or resulting from the consummation of the transactions contemplated;

(e) liabilities under any Employee Benefit Plan (as hereinafter defined) of Summerlin; and liabilities for any and all EEOC, wage and hour, unemployment compensation, employee medical or workers' compensation claims relating to periods prior to the Closing Date;

(f) except as provided in Section 4.6 below, liabilities or obligations for any and all workers' compensation, health, disability or other benefits due to or for the benefit of any employees of Summerlin (or their covered dependents);

(g) liabilities arising out of or in connection with claims, litigations or proceedings described in Section 2.16, and claims, litigations or proceedings (whether instituted prior to or after the Closing Date) for acts or omissions which allegedly occurred prior to or at the Closing Date;

(h) liabilities attributable to legal, accounting or brokerage fees, and similar costs incurred by Summerlin related to the contribution of any of the Facilities Assets;

(i) except as expressly set forth herein, liabilities arising from Summerlin's assignment and the Company's assumption of the Assumed Liabilities;

(j) liabilities for the payment by Summerlin of any deductibles, copayments or other self-insurance requirements relating to events occurring prior to the Closing Date;

(k) any and all liabilities respecting any intercompany transactions of Summerlin, whether or not such transaction relates to the provision of goods and services, tax sharing arrangements, payment arrangements, intercompany charges or balances, or the like;

(l) except for Assumed Liabilities, any and all actual or contingent liabilities or obligations of or demands upon Summerlin arising from acts or omissions of Summerlin (actual or alleged) prior to the Closing Date;

(m) all liabilities arising out of or in connection with the existence of Materials of Environmental Concern (as

hereinafter defined) upon, about, beneath or migrating to or from any of the Real Property on or before the Closing Date or the existence on or before the Closing Date of any Environmental Claim (as hereinafter defined) or any violation of any Environmental Laws (as hereinafter defined) pertaining to such Real Property or the operation of the UHS Facilities by Summerlin or any other business operated therefrom;

(n) any liability of Summerlin which allegedly occurred out of any negligence, medical malpractice or similar acts or omissions which allegedly occurred prior to the Closing Date;

(o) sales, income, franchise, use and other taxes payable with respect to the business or operations of Summerlin through the Closing Date or the transactions contemplated hereby;

(p) except as expressly set forth herein, liabilities for rights or remedies claimed by third parties under any of the Assumed Liabilities which broaden or vary the rights and remedies such third parties would have had against Summerlin if the contribution of the Facilities Assets were not to occur; and

(q) liabilities on account of those liens or mortgages set forth on Schedule 1.7(g).
- - - ---------------

With respect to Subsection 1.7(m) above, for a period of five (5) years from and after the Closing Date, in the event that it cannot be proven that the event giving rise to a Subsection 1.7(m) liability occurred after the Closing Date then it shall be presumed to have occurred on or before the Closing Date and Summerlin can rebut this presumption with a Phase I environmental study. From and after five (5) years following the Closing Date, the presumption shall shift and thereafter all events giving rise to a Subsection 1.7(m) liability shall be presumed to have occurred from and after the Closing Date.

1.8 CLOSING. The closing of the transactions provided herein will be accomplished by means of overnight courier delivery and facsimile transmission or by such other method as may be agreed upon by the Parties. Upon contribution of the Facilities Assets which shall be effective as of 11:59 p.m. Pacific Time on January 31, 1998, payment of the Desert Springs Payment and the issuance of membership interests to Desert Springs in accordance with Section 1.5 hereof, the closing shall be deemed to be effective as of 12:01 a.m. Pacific Time on February 1, 1998. Such date of effectiveness of closing is herein referred to as the "Closing Date". On the date of

effectiveness of the Closing, Summerlin shall receive good funds in the amount of the Desert Springs Payment if a business day, otherwise the parties shall agree on whether it shall be prior or after such effectiveness. The parties have agreed that if the Closing is to be effective February 1, 1998, the parties shall use their best efforts to close the transaction sufficiently so that the funds shall be wired on January 30, 1998. In the event that the Desert Springs Payment is received by Summerlin before or after the date of the effectiveness of the Closing, the Desert Springs Payment shall be reduced or increased on a per diem basis, based on the prime rate as reported in <u>The Wall Street Journal</u> five (5) business days before the actual date of closing.

2. REPRESENTATIONS AND WARRANTIES OF SUMMERLIN. Summerlin hereby represents, warrants and agrees as follows:

2.1 EXISTENCE; GOOD STANDING; PARTNERSHIP AUTHORITY. Summerlin is a Delaware limited partnership duly formed, validly existing and in good standing under the laws of the State of Delaware. Summerlin has all requisite partnership power and authority to own its properties and carry on its business as now conducted. The copies provided to Desert Springs of the Agreement of Limited Partnership of Summerlin, as amended to date, are complete and correct and presently in effect. Summerlin has not failed to qualify in any jurisdiction in which property owned, leased or operated by it or the nature of the business conducted by it makes such qualification necessary and where the failure to so qualify would have a material adverse effect on it. Summerlin is not in default with respect to any order of any court, governmental authority or arbitration board or tribunal to which it is a party or is subject.

2.2 AUTHORIZATION; VALIDITY AND EFFECT OF AGREEMENTS. The execution, delivery and performance of this Agreement and all agreements and documents contemplated hereby by Summerlin and the consummation by it of the transactions contemplated hereby, have been duly and effectively authorized by all necessary partnership action on its part. This Agreement constitutes, and all agreements and documents contemplated hereby when executed and delivered pursuant hereto will constitute, the valid and legally binding obligations of Summerlin, enforceable in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium or other similar laws of general application now or hereafter in effect relating to the enforcement of creditors' rights generally and except that remedies of specific performance, injunction and other forms of equitable relief are subject to certain tests of equity

jurisdiction, equitable defenses and the discretion of the court before which any proceeding therefor may be brought. Except as set forth on Schedule 2.2 hereto, the execution and delivery of this Agreement by Summerlin does not, and the consummation of the transactions contemplated hereby will not, except to the extent the same would not have a material adverse effect on it: (i) require the consent, approval or authorization of any person, corporation, partnership, joint venture or other business association or any governmental, public authority or accrediting body; (ii) violate, with or without the giving of notice or the passage of time, or both, any provisions of law or statute or any rule, regulation, order, award, judgment, or decree of any court or governmental authority applicable to such Party;(iii) result in the breach or termination of any term or provision of, or constitute a default under, or result in the acceleration of or entitle any party to accelerate (whether after the giving of notice or the lapse of time or both) any obligation under, or result in the creation or imposition of any lien, charge, pledge, security interest or other encumbrance upon any part of the property of Summerlin pursuant to any provision of, any order, judgment, arbitration award, injunction, decree, indenture, mortgage, lease, license, lien, or other agreement or instrument to which Summerlin is a party or by which it is bound, or violate any provision of the Agreement of Limited Partnership of Summerlin, as amended to the date of this Agreement; or (iv) result in any suspension, revocation, impairment, forfeiture or nonrenewal of any License (as hereinafter defined) relating to the ownership and operation by Summerlin of health care facilities which are the subject of the transactions contemplated hereby, subject to the Company obtaining new Licenses for its operation of the UHS Facilities.

2.3 SUBSIDIARIES. Except as set forth on Schedule 2.3, Summerlin does not own, directly or indirectly, any debt or equity securities issued by any other partnership or corporation, or any interest in any partnership, joint venture or other business enterprise. During the period between the effective time of its creation and the effective time of the transactions described in Section 1.1 above, the Company shall not have conducted any business or incurred any liabilities.

2.4 CAPITALIZATION. Schedule 2.4 sets forth a list of the general and limited partnership interests issued and outstanding and owned of record and beneficially by each of the partners in Summerlin. Except as set forth on Schedule 2.4, there are no outstanding or authorized rights, warrants, options, subscriptions, agreements or commitments of any character giving anyone any right to require Summerlin to sell or issue any

partnership interests or other securities, nor are there any voting trusts or other agreements or understandings with respect to the partnership interests in Summerlin. On and as of the date of payment of the Desert Springs Payment, Summerlin shall be the owner of 100% of the outstanding membership interests in the Company, free and clear of all Liens other than the Permissible Liens.

2.5 RECORDS. The books, records and work papers of Summerlin will be made available to Desert Springs for inspection prior to the Closing Date and (a) will contain the minutes of all meetings of partners and actions taken by partners, (b) have been maintained in accordance with good business practice and (c) accurately reflect the basis for the financial condition and results of operations of Summerlin set forth in the financial statements referred to in Section 2.6 hereof except to the extent the same would not have a material adverse effect on it.

2.6 FINANCIAL STATEMENTS. Summerlin has furnished true, complete and correct copies of its unaudited balance sheet as of December 31, 1997 and related statements of income and operations for the period then ended (the "Summerlin Balance Sheet, or sometimes the "Financial Statements"). Copies of the Financial Statements are attached hereto as Schedule 2.6. The Financial Statements of Summerlin are in accordance with its books and records, are complete and correct in all material respects, fully and fairly set forth the financial condition of Summerlin as of the dates indicated, and the results of its operations for the periods indicated, and have been prepared in accordance with generally accepted accounting principles consistently applied, except as otherwise stated therein and except for normal year-end adjustments (the effect of which will not, individually or in the aggregate, be materially adverse) and the absence of notes.

2.7 ABSENCE OF UNDISCLOSED LIABILITIES. Summerlin has no liabilities or obligations of any nature, either accrued, absolute, contingent or otherwise, which are not reflected or provided for in the Financial Statements, except (i) those arising after the date of the Summerlin Balance Sheet which are in the ordinary course of business, in each case in normal amounts and none of which is materially adverse, and (ii) as and to the extent specifically described in Schedule 2.7 hereof. Except as set forth on Schedule 2.7, Summerlin does not know and has no reasonable grounds to know of any reasonable basis, as of the date hereof, for assertion against it of any claim or liability of any nature in excess of $25,000 individually or

$50,000 in the aggregate not fully disclosed in the Summerlin Balance Sheet.

2.8 ABSENCE OF CERTAIN CHANGES OR EVENTS SINCE THE DATE OF THE SUMMERLIN BALANCE SHEET. Except as otherwise disclosed in Schedule 2.8, since the date of the Summerlin Balance Sheet Summerlin has not, except to the extent the same would not have a material adverse effect on it:

2.8.1 incurred any obligation or liability (fixed, contingent or otherwise), except normal trade or business obligations incurred in the ordinary course of business and consistent with past practice, none of which is materially adverse, and except in connection with this Agreement and the transactions contemplated hereby;

2.8.2 discharged or satisfied any lien, security interest or encumbrance or paid any obligation or liability (fixed, contingent or otherwise), including intercompany obligations and liabilities except in the ordinary course of business;

2.8.3 mortgaged, pledged or subjected to any Lien any of its assets or properties (other than mechanic's, materialman's and similar statutory liens arising in the ordinary course of business and purchase money security interests arising as a matter of law between the date of delivery and payment);

2.8.4 sold, assigned, conveyed, transferred, leased or otherwise disposed of, or agreed to sell, assign, convey, transfer, lease or otherwise dispose of any of its assets or properties except for a fair consideration in the ordinary course of business and consistent with past practice or, except in the ordinary course of business and consistent with past practice, acquired any assets or properties;

2.8.5 canceled or compromised any debt or claim in excess of $2,500 for any individual debt or claim or $10,000 in the aggregate except patient account bad debt which is addressed in Section 2.8.14;

2.8.6 waived or released any rights of material value;

2.8.7 made or granted any wage or salary increase applicable to any group or classification of employees generally except merit increases and bonuses pursuant to prior personnel practices, entered into any employment contract with, or made any

loan to, or entered into any material transaction of any other nature with any partner, officer or employee, been the subject of any material labor dispute or, to its knowledge, threat thereof;

2.8.8 entered into any transaction or contract (other than Immaterial Contracts as defined in Section 2.13.4), except (i) contracts listed on Schedule 2.8 and (ii) this Agreement and the transactions contemplated hereby;

2.8.9 suffered any casualty loss or damage (whether or not such loss or damage shall have been covered by insurance) which affects in any material respect its ability to conduct business;

2.8.10 authorized or effected any amendment or restatement of its Agreement of Limited Partnership, or taken any steps looking toward its dissolution or liquidation;

2.8.11 suffered any material adverse change in its operations, earnings, assets, liabilities, properties or business or in its condition, financial or otherwise, other than changes in the general market conditions and prospects for the UHS Facilities;

2.8.12 made capital expenditures or entered into any commitment therefore which, in the aggregate, exceed $500,000;

2.8.13 suffered any material adverse change in its relations with, or any material loss or, to its knowledge, material adverse threatened loss of any of its material suppliers, managed care contracts, or Medicare or Medicaid contracts;

2.8.14 written off as uncollectible any accounts receivable or trade notes in excess of reserves; or

2.8.15 introduced any material change with respect to the operation of its business, including its method of accounting.

2.9 TAXES. Except as set forth in Schedule 2.9, Summerlin (i) has duly and timely filed or caused to be filed all federal, state, local and foreign tax returns and reports of "Taxes" (as hereinafter defined) required to be filed by it prior to the date of this Agreement which relate to it or with respect to which it or its assets or properties are liable or otherwise in any way subject, (ii) has paid or fully accrued for all Taxes,

interest, penalties, assessments and deficiencies shown to be due and payable on such returns and reports (which Taxes, interest, penalties, assessments and deficiencies are all the Taxes, interest, penalties, assessments and deficiencies due and payable under the laws and regulations pursuant to which such returns were filed), and (iii) has properly accrued for all such Taxes accrued in respect of it or its assets and properties for periods subsequent to the periods covered by such returns. Except as set forth in Schedule 2.9, no deficiency in payment of taxes for any period has been asserted by any taxing body and remains unsettled at the date of this Agreement. Such Party has made all withholdings of Taxes required to be made under all applicable United States, state and local tax regulations and such withholdings have either been paid to the respective governmental agencies or set aside in accounts for such purpose or accrued, reserved against and entered upon the books of such Party. As used herein, the term "Tax" or "Taxes" means any federal, state, local or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Internal Revenue Code ("Code") Sec. 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum or estimated tax, assessment, charge, levy or fee of any kind whatsoever, which are due or alleged to be due to any taxing authority, whether disputed or not.

2.10 REAL PROPERTY. Except as set forth on Schedule 2.10:

(a) Schedule 2.10 hereto identifies all interests in real property, including land and improvements held by Summerlin as of the date hereof, together with the nature of such interest. Summerlin owns fee simple title to the tracts of Real Property. To the extent that any interest in Real Property set forth thereon is shared, Schedule 2.10 sets forth the nature and proportion of the sharing arrangement;

(b) the Real Property comprises all of the real property associated with or employed or used in the business of the UHS Facilities;

(c) except as set forth in Schedule 2.10(c), to the best knowledge of Summerlin, no part of the Real Property contains, is located within or abuts any navigable water or other body of water, tideland, wetland, marshland or any other area

which is subject to special state, federal or municipal regulation, control or protection;

(d) such Real Property adjoins dedicated public roadways and there is access for motor vehicles from the Real Property to such roadways by valid public or private easements; and, to the best knowledge of Summerlin, there are no conditions existing which could result in the termination or reduction of the current access from the Real Property to existing roadways;

(e) all essential utilities (including water, sewer, electricity and telephone service) are available to the Real Property;

(f) to the best knowledge of Summerlin, the UHS Facilities and the Real Property and the businesses conducted thereon are in material compliance with all applicable planning, zoning, land use, public health, fire safety and building codes and ordinances; the consummation of the transactions contemplated herein will not result in a violation of any applicable planning, land use, public health, fire safety, zoning or building code or ordinance, or the termination of any applicable zoning variances, conditional use permits, waivers, exemptions or "grandfathering" now existing with respect to the Real Property; and final, permanent and unconditional certificates of occupancy and/or use have been duly issued by the applicable governmental authority having jurisdiction for all buildings located on the Real Property;

(g) Summerlin has not received actual notice of a violation of any ordinance or other law, order, regulation or requirement, and has not received actual notice of condemnation or similar proceedings relating to any part of the Real Property;

(h) the Real Property is subject only to the Liens described in Schedule 2.10(h), and on the Closing Date will be subject only to the Liens described on Schedule 2.10(h) which are not designated therein as "excluded" and any other Liens approved by the Company in writing on or after the effective date hereof (the "Permitted Encumbrances");

(i) Summerlin has not created or may not assert any rights in respect of any Liens which will interfere with the Company's use of the Real Property after the Closing Date;

(j) except for those tenants in possession of the Real Property under contracts described in Schedule 2.10(j), there are no parties in possession of, or claiming any

possession, adverse or not, to or other interest in, any portion of the Real Property as lessees, tenants at sufferance, trespassers or otherwise;

(k) with respect to the Real Property, no tenant is entitled to any rebate, concession or free rent, other than as set forth in the contract with such tenant; no commitments have been made to any tenant for repairs or improvements other than for normal repairs and maintenance in the future or as set forth in the contract with such tenant; and no rents due under any of the tenant contracts have been assigned or hypothecated to, or encumbered by, any person, other than pursuant to the encumbrances relating to indebtedness to be satisfied on or prior to the Closing Date, or Permitted Encumbrances, as additional security for the payment thereof;

(l) no part of the Real Property is currently subject to condemnation, eminent domain or other proceedings for the taking thereof, and to the best of Summerlin's knowledge, no condemnation or taking is threatened or known by Summerlin to be contemplated; and

(m) the improvements to the Real Property are located entirely within the boundaries of the Real Property and, to Summerlin's knowledge, do not materially violate any building set back lines or materially encroach upon any easements located on the Real Property.

2.11 TITLE TO PROPERTY AND ASSETS; SUFFICIENCY OF FACILITIES ASSETS.

(a) Summerlin has good and marketable title to the Facilities Assets (including, without limitation, the properties and assets reflected in the Summerlin Balance Sheet except any thereof since disposed of for value in the ordinary course of business) except for the Permitted Encumbrances, and none of such properties or assets is, except as disclosed in the Summerlin Balance Sheet or the Schedules hereto, subject to a contract of sale not in the ordinary course of business, or, except for Permitted Encumbrances, subject to any Liens.

(b) Except as described on Schedule 2.11, the Facilities Assets constitute, in the aggregate, all the properties and assets necessary for the operation of the UHS Facilities as currently conducted. The Facilities Assets, together with the Excluded Assets, comprise all of the following: (i) all assets owned by Summerlin, (ii) all assets used in connection with the UHS Facilities and their related businesses

and (iii) all assets owned, used or operated by any affiliate of Summerlin located within a fifty (50) mile radius of Las Vegas, Nevada.

2.12 CONDITION OF PROPERTY. All buildings on the Real Property and all items of tangible personal property, equipment, fixtures and inventories included within the assets and properties of Summerlin or required to be used in the ordinary course of its business are being contributed and transferred pursuant to this Agreement on an "as is, where is" basis with no representations or warranties express or implied as to their physical condition and WITHOUT ANY WARRANTIES FROM ANY PARTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

2.13 LIST OF CONTRACTS AND OTHER DATA. Schedule 2.13 sets forth the following information with respect to the properties and assets of Summerlin, other than the Excluded Assets (indicating in each case, where appropriate, whether or not consent by a third party is required for the transfer by Summerlin of such properties and assets to the Company):

2.13.1 a description of all real property leased by Summerlin and all leases of real property to which Summerlin is a party;

2.13.2 a list of all personal property owned of record or beneficially by Summerlin having a value per item or group of items in excess of $1,000 and all leases of personal property, licenses, permits, franchises, concessions, certificates of public convenience or the like to which Summerlin is a party;

2.13.3 a list of (i) all United States and foreign patents, trademarks and trade names, trademark and trade name registrations, service marks and service mark registrations, copyrights and copyright registrations, unexpired as of the date hereof, all United States and foreign applications pending on said date for patents, for trademark or trade name registrations, for service mark registrations, or for copyright registrations, and all trademarks, trade names, service marks, labels and other trade rights in use on said date, all of the foregoing being owned in whole or in part as noted thereon on said date by Summerlin, (ii) a description of all action taken by Summerlin to protect all tradenames used by it, and (iii) all licenses granted by or to Summerlin and all other agreements to which Summerlin is a party, which relate in whole or in part to any items of the categories mentioned in clause (i) above or to any other proprietary rights, whether owned by Summerlin or otherwise;

2.13.4 a list of all existing contracts and commitments to which Summerlin is a party or by which Summerlin or any of its respective properties or assets is bound, except for Immaterial Contracts. "Immaterial Contracts" shall mean contracts which (i) no party thereto is a physician, physician group or other referral source to a UHS Facility, and is not a third party payor contract and is not a real estate lease and (ii) requires payment by Summerlin of less than $100,000 per year; and

2.13.5 a list of (i) all collective bargaining agreements, multi-employer pension plans, employment, consulting and separation agreements, executive compensation plans, bonus plans, incentive compensation plans, deferred compensation agreements, employee pension plans or retirement plans, employee profit sharing plans, employee stock purchase and stock option plans and hospitalization insurance or other plans or arrangements providing for benefits for employees or former employees of Summerlin, and (ii) all Multiemployer Plans (as defined in ERISA as hereinafter defined) which Summerlin maintains or has maintained or to which Summerlin makes, is required to make, has made or has been required to make a contribution.

All documents, rights, obligations and commitments referred to in this Section 2.13 are, to the best knowledge of Summerlin, valid and enforceable in accordance with their terms for the period stated therein and there is not under any of them any existing breach, default, event of default or event which with the giving of notice or lapse of time, or both, would constitute a default, by Summerlin, or, to Summerlin's knowledge, by any other party thereto, nor, except as set forth on Schedule 2.13, has any party thereto given notice of or made a claim with respect to any breach or default. There are no existing laws, regulations or decrees, nor to Summerlin's knowledge are there any proposed laws, regulations or decrees, which adversely affect any of such documents, rights, obligations or commitments. Except as set forth on Schedule 2.13, no part of the business or operations of Summerlin is dependent to any material extent on any patent, trademark, copyright, or license or any assignment thereof or any secret processes or formulae. Except as set forth on Schedule 2.13, none of the rights of Summerlin under such documents, rights, obligations or commitments is subject to termination or modification as a result of the transactions contemplated hereby.

2.14 NO BREACH OR DEFAULT. Summerlin is not in default under any contract to which it is a party or by which it is bound, nor has any event occurred which, after the giving of notice or the passage of time or both, would constitute a default under any such contract except as set forth in Schedule 2.14. Summerlin has no reason to believe that the parties to such contracts will not fulfill their obligations under such contracts in all material respects or are threatened with insolvency.

2.15 LABOR CONTROVERSIES. Neither Summerlin nor any of its employees is a party to any collective bargaining agreement except as included in Schedule 2.13. There are not any controversies pending or, to the knowledge of Summerlin, threatened between Summerlin and any of its employees which might reasonably be expected to materially adversely affect the conduct of its business, or any unresolved labor union grievances or unfair labor practice or labor arbitration proceedings pending or, to the knowledge of Summerlin, threatened relating to its business, and to the knowledge of Summerlin, there are not any further organizational efforts presently being made or threatened involving any of the employees of Summerlin. Except as set forth on Schedule 2.15, Summerlin has not received any notice or claim that it has not complied with any laws relating to the employment of labor, including any provisions thereof relating to wages, hours, collective bargaining, the payment of social security and similar taxes, equal employment opportunity, employment discrimination and employment safety, or that Summerlin is liable for any arrears of wages or any taxes or penalties for failure to comply with any of the foregoing.

No person or Party (including, but not limited to, any governmental agency) has any claim or basis for any action or proceeding, against Summerlin, arising out of any statute, ordinance or regulation relating to wages, collective bargaining, discrimination in employment or employment practices or occupational safety and health standards (including, but not limited to, the Fair Labor Standards Act, Title VII of the Civil Rights Act of 1964, as amended, the Occupational Safety and Health Act, or the Age Discrimination in Employment Act of 1967 or the Americans With Disabilities Act of 1990). Summerlin has complied with all laws and regulations with respect to the determining of independent contractor or employee status.

2.16 LITIGATION. Except as set forth in Schedule 2.16, there are no claims, actions, suits or proceedings or, to the knowledge of Summerlin, investigations with respect to Summerlin, involving claims by or against Summerlin which are pending or, to Summerlin's knowledge, threatened against Summerlin, at law or in equity, or before or by any federal,

state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, or before the internal grievance mechanisms of Summerlin. To Summerlin's knowledge, no basis for any action, suit or proceeding exists, and there are no orders, judgments, injunctions or decrees of any court or governmental agency with respect to which it has been named or to which it is a party, which directly apply, in whole or in part, to the business of Summerlin, or to any of its assets or properties, or which would result in any material adverse change in its business.

2.17 PATENTS; TRADEMARKS, ETC. No patents, trademarks, trade names, copyrights, registrations or applications are necessary for the conduct of the business of Summerlin as now conducted, other than those listed in Schedule 2.13 hereto. Except as described in Schedule 2.13 hereto, all such patents, trademarks, trade names, copyrights and registrations are in good standing, are valid and enforceable and are free from any default on the part of Summerlin. Summerlin is not a licensor in respect of any patents, trademarks, trade names, copyrights or registrations or applications therefor. Summerlin is not in violation of any patent, patent license, trade name, trademark, or copyright of others. No officer, partner or employee of Summerlin owns, directly or indirectly, in whole or in part, any patents, trademarks, trade names, copyrights, registrations or applications therefor or interests therein which Summerlin has used, is presently using, or the use of which is necessary for its business as now conducted.

2.18 LICENSES; PERMITS; AUTHORIZATIONS. Schedule 2.18 hereto is a schedule of all rights, approvals, authorizations, consents, licenses, orders, accreditations, franchises, concessions, certificates and permits of all governmental agencies, whether United States, state or local, and accrediting bodies, (collectively, the "Licenses") required by the nature of the business conducted by Summerlin to permit the continued operation of its business in the manner in which it was conducted as of the date hereof (indicating in each case of a License held by Summerlin, where appropriate, whether or not the consent by a third party to the transfer to the Company of such License is required). Summerlin has all Licenses required to permit the operation of its business as presently conducted; Summerlin's business is and has been operated in all material respects in compliance therewith and all such Licenses are in full force and effect and no action or claim is pending, nor to the knowledge of Summerlin, is threatened to revoke, terminate or declare invalid any of the foregoing.

2.19 COMPLIANCE WITH APPLICABLE LAW; ENVIRONMENTAL LAWS.

(a) Except as set forth on Schedule 2.19 hereto, the conduct of the business of Summerlin does not (i) violate or infringe any domestic or foreign laws, statutes, rules or regulations or any material ordinances, including, without limitation, any of the foregoing that pertain to or regulate the operation of a hospital, consumer protection, health and safety or occupational safety matters, or (ii) violate or infringe any right or patent, trademark, trade name, service mark, copyright, know-how or other proprietary right of third parties, the enforcement of which would adversely affect the business of Summerlin or the value of its properties or assets.

(b) Neither Summerlin nor, to the knowledge of Summerlin, any of its employees, partners and officers in their capacities as such, have engaged in any activities which are prohibited under any federal laws, or the regulations promulgated pursuant to such laws or related state or local laws, statutes or regulations or which are prohibited by rules of professional conduct, including but not limited to the following: (i) knowingly and willfully making or causing to be made a false statement or representation of a material fact in any application for any benefit or payment; (ii) knowingly and willfully making or causing to be made any false statement or representation of a material fact for use in determining rights to any benefit or payment; (iii) presenting or causing to be presented a claim for reimbursement for services under Medicare, Medicaid or other state health care programs that is for an item or service that is known or should be known to be (a) not provided as claimed, or (b) false or fraudulent; (iv) failing to disclose knowledge by a claimant of the occurrence of any event affecting the initial or continued right to any benefit or payment on its own behalf or on behalf of another, with intent to fraudulently secure such benefit or payment; (v) knowingly and willfully offering, paying, soliciting, or receiving any remuneration (including any kickback, bribe, or rebate), directly or indirectly, overtly or covertly, in cash or in kind (a) in return for referring an individual to a person for the furnishing or arranging for the furnishing of any item or service for which payment may be made in whole or in part by Medicare, Medicaid or other state health care program, or (b) in return for purchasing, leasing, or ordering or arranging for or recommending purchasing, leasing, or ordering any good, facility, service, or item for which payment may be made in whole or in part by Medicare, Medicaid or other state health care program; (vi) knowingly making a payment, directly or indirectly, to a physician as an inducement to reduce

or limit necessary services to individuals who are under the direct care of the physician and who are entitled to benefits under Medicare, Medicaid, or other state health care programs; (vii) providing to any person information that is known or should be known to be false or misleading that could reasonably be expected to influence the decision when to discharge a patient from a UHS Facility; (viii) knowingly and willfully making or causing to be made or inducing or seeking to induce the making of any false statement or representation (or omitting to state a material fact required to be stated therein or necessary to make the statement contained therein not misleading) of a material fact with respect to (a) the conditions or operations of a UHS Facility in order that the UHS Facility may qualify for Medicare, Medicaid or other state health care program certification, or (b) information required to be provided under (S) 1124A of the Social Security Act (42 U.S.C. (S) 1320a-3); or (ix) knowingly and willfully (a) charging for any Medicaid service money or other consideration at a rate in excess of the rates established by the state, or (b) charging, soliciting, accepting or receiving, in addition to amounts paid by Medicaid, any gift money, donation or other consideration (other than a charitable, religious or other philanthropic contribution from an organization or from a person unrelated to the patient) (1) as a precondition of admitting the patient, or (2) as a requirement for the patient's continued stay in the UHS Facility.

(c) All Licenses currently held by Summerlin pursuant to the Environmental Laws are identified in Schedule 2.18.

(d) Summerlin is in compliance in all material respects with all applicable Environmental Laws except as disclosed in Schedule 2.19.

(e) In regards to the UHS Facilities and the Real Property, there is no Environmental Claim pending or, to such Party's knowledge, threatened against the UHS Facilities or the Real Property, or, to Summerlin's best knowledge after due inquiry, any other person whose liability for any Environmental Claim Summerlin has retained or assumed contractually; to Summerlin's knowledge, there are no past or present actions, activities, circumstances, conditions, events or incidents, including the release, emission, discharge or disposal of any Materials of Environmental Concern, that could form the basis of any Environmental Claim against Summerlin or against any person whose liability for any Environmental Claim Summerlin has retained or assumed contractually; and Summerlin has not received any written communication, whether from a governmental authority

or otherwise, that alleges that Summerlin is not in full compliance with all applicable Environmental Laws.

(f) In regards to the UHS Facilities and the Real Property, without in any way limiting the generality of the foregoing, (i) all on-site and off-site locations where Summerlin has stored, disposed or arranged for the disposal of Materials of Environmental Concern are identified in Schedule 2.19, (ii) all Contracts dealing with the removal, storage, disposal and handling of Materials of Environmental Concern are with properly licensed and registered vendors, (iii) all underground storage tanks, and the capacity and contents of such tanks, located on the Real Property identified in Schedule 2.19, (iv) except as set forth on Schedule 2.19, there is no asbestos contained in or forming part of the Real Property, and (v) except as set forth on Schedule 2.19, no polychlorinated biphenyls (PCBs) are used or stored on the Real Property.

(g) As used herein: (i) "Environmental Claim" means any written notice by a person alleging potential liability (including potential liability for investigatory costs, cleanup costs, governmental response costs, natural resources damages, property damages, personal injuries or penalties) arising out of, based on or resulting from, directly or indirectly, the presence, or release into the environment, of any Materials of Environmental Concern (as defined below); (ii) "Environmental Laws" means any and all federal, state, local and foreign laws and regulations (including common law) relating to pollution or protection of human health or the environment (including ground water, land surface or subsurface strata), including laws and regulations relating to emissions, discharges, releases or threatened releases of Materials of Environmental Concern, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, recycling, reporting or handling of Materials of Environmental Concern; and (iii) "Materials of Environmental Concern" means chemicals, pollutants, contaminants, wastes (including medical waste), toxic substances, polychlorinated biphenyls (PCB's), ureaformaldehyde, petroleum and petroleum products and such other substances, materials and wastes which are defined or classified as hazardous or toxic under any Environmental Laws.

2.20 EMPLOYEE BENEFIT PLANS; EMPLOYEES AND EMPLOYEE RELATIONS.

2.20.1 Attached hereto is an accurate list (Schedule 2.20.1) of all "employee welfare benefit plans" and "employee pension benefit plans" (collectively, "Qualified

Plans"), as such terms are defined by the Employment Retirement Income Security Act of 1974, as amended ("ERISA"), and any other group employee benefit plan, agreement, arrangement or understanding maintained for the benefit of Summerlin (the Qualified Plans, together with such other plans, arrangements and understandings, collectively, the "Employee Benefit Plans"). To the extent available, complete and genuine copies of the summary plan descriptions have been provided to Desert Springs, which summary plan descriptions accurately summarize the material provisions of the Employee Benefit Plans. Neither Summerlin nor any other members of the Controlled Group of Corporations (as defined in Section 1563 of the Code) that includes Summerlin contributes to, ever has contributed to, or ever has been required to contribute to any Multiemployer Plan (as defined in Section 3(37) of ERISA) or has any liability (including withdrawal liability) under any Multiemployer Plan. There is no lien, encumbrance or claim of any type on the Facilities Assets or against Summerlin with respect to the Employee Benefit Plans, and Summerlin has not taken any action, or omitted to take any action, with respect to the Employee Benefit Plans (or has any knowledge of the same) that would or could be expected to result in a Lien on the Facilities Assets or against Summerlin.

2.20.2 Schedule 2.20.2 sets forth a complete list (as of the date set forth therein) of names, positions, current annual salaries or wage rates, and bonus and other compensation arrangements of all full-time and part-time employees of Summerlin.

2.21 ADVERSE AGREEMENTS; NO ADVERSE CHANGE.

(a) Summerlin is not a party to or subject to any agreement or instrument or subject to any charter or other corporate restriction or any judgment, order, writ, injunction, decree or rule specifically naming Summerlin which adversely affects the business, operations, properties, assets or conditions, financial or otherwise, of Summerlin.

(b) To the best of Summerlin's knowledge there has not been any material adverse change in, or development materially adversely affecting the business, assets, financial position or results of operations of any of Summerlin since the Summerlin Balance Sheet date.

2.22 TRADE NOTES AND ACCOUNTS RECEIVABLE; TRADE ACCOUNTS PAYABLE; PREPAID CONTRACTS.

(a) Except as set forth on _Schedule 2.22_ hereto, the trade notes and accounts receivable of Summerlin are reflected on the Summerlin Balance Sheet and all trade notes and accounts receivable arising thereafter and prior to the Closing Date arose and will arise from bona fide transactions in the ordinary course of business of Summerlin, and are (except for normal claims and allowances which are consistent with past experience of Summerlin and which in the aggregate are not material) current, arose in the usual and ordinary course of business of Summerlin from arms-length transactions, are not subject to any defenses, counterclaims or set-offs which would materially adversely affect such trade notes and accounts receivable, and, to Summerlin's knowledge, are fully collectible, less the applicable allowance for doubtful accounts. Summerlin has fully performed all obligations with respect to such trade notes and accounts receivable which it was obligated to perform prior to the date hereof and _Schedule 2.22_ sets forth an aging schedule, as of December 31, 1997, for all such trade notes and accounts receivable.

(b) The trade accounts payable of Summerlin reflected on the Summerlin Balance Sheet and all trade accounts payable arising thereafter and prior to the Closing Date arose and will arise from bona fide transactions in the ordinary course of business of Summerlin and were paid or are not yet due and payable.

(c) _Schedule 2.22_ hereto sets forth the amounts and dates of all payments (the "Prepayments") received by Summerlin which relate to services to be performed by Summerlin subsequent to the Closing Date, including, without limitation, all such payments expressly authorized to be made in advance by any of the terms of any contract or agreement with Summerlin.

2.23 INVENTORIES AND SUPPLIES. All inventories and supplies of Summerlin, whether or not reflected in the Summerlin Balance Sheet, consist of a quality and quantity useable and salable in the ordinary course of business, without discount or reduction, except for obsolete items and items of below-standard quality, all of which have been written off or written down to net realizable value in the Summerlin Balance Sheet. All inventories and supplies not written off are valued at the lower of cost (applied on a first in, first out basis) or market in accordance with generally accepted accounting principles. The present quantities of inventory and supplies are not excessive and are reasonable and consistent with the past inventory and supply practices of Summerlin.

2.24 ILLEGAL PAYMENTS. Summerlin has not, nor to the knowledge of Summerlin, has any of its respective partners, directors or officers, in their capacity as such, either directly or indirectly, made any illegal payments to, or provided any illegal benefit or inducement for, any person pursuant to an action illegal under any federal, state or local law.

2.25 INSURANCE POLICIES. (a) Schedule 2.25 contains a correct and complete description of all insurance policies of Summerlin covering Summerlin and its employees, agents and assets. Each such policy is in full force and effect and, to the knowledge of Summerlin, is reasonably adequate in coverage and amount to insure against customarily insured risks to which Summerlin and its employees, businesses, properties and other assets may likely be exposed in the operation of its business. All premiums with respect to such insurance policies have been paid on a timely basis, and no notice of cancellation or termination has been received with respect to any such policy. To the knowledge of Summerlin, and except as set forth on Schedule 2.25, there are no pending claims against such insurance by Summerlin as to which the insurers have denied coverage or otherwise reserved rights. Since January 1, 1994, Summerlin has not been refused any insurance with respect to its assets or operations, nor has its coverage been limited by any insurance carrier to which it has applied for any such insurance or with which it has carried insurance.

(b) Schedule 2.25 contains a correct and complete description of all insurance policies of Summerlin covering the Real Property. Each such policy is in full force and effect and, to the knowledge of Summerlin, is reasonably adequate in coverage and amount to insure against customarily insured risks with respect to property of this type. All premiums with respect to such insurance policies have been paid on a timely basis, and no notice of cancellation or termination has been received with respect to any such policy. Except as set forth on Schedule 2.25, there are no pending claims against such insurance by Summerlin as to which the insurers have denied coverage or otherwise reserved rights.

2.26 PROFESSIONAL STAFF, MEDICARE, MEDICAID AND OTHER HEALTH CARE PROGRAMS.

(a) The professional licensed provider staff of the UHS Facilities consists of the persons whose names and status are set forth on Schedule 2.26(a) hereto.

(b) Except as set forth on Schedule 2.26(b) hereto, Summerlin is certified for participation in the Medicare and Nevada Medical Assistance ("Medicaid") programs, and has a current and valid provider contract with such programs.

(c) Except as set forth on Schedule 2.26(c) hereto, Summerlin has timely filed or caused to be timely filed all cost reports and other reports of every kind whatsoever required by any governmental or other entity to be made by it with respect to the purchase of services by third-party purchasers, including but not limited to Medicare and Medicaid programs and other insurance carriers, and all such reports are complete and accurate in all material respects. Summerlin has paid or caused to be paid all refunds, discounts or adjustments which have become due in accordance with said reports as filed and, except as set forth on Schedule 2.26(c), have not been notified that there is any further liability now due (whether or not disclosed in any report heretofore or hereafter made) for any such refund, discount or adjustment, or any interest or penalties accruing with respect thereto. Summerlin has delivered to Desert Springs complete copies of all of its Medicare and Medicaid cost reports submitted by Summerlin for the two most recent fiscal years.

(d) To the knowledge of Summerlin, Summerlin and its partners, officers, employees or agents (acting in their capacities as such), have not engaged in any activities which (i) could subject Summerlin or such person to sanctions under 42 U.S.C. (S) 1320a-7 (other than subparagraph (b)(7) thereof) or (ii) at the time such activities were engaged in were known or reasonably could have been known to be prohibited under Federal Medicare and Medicaid statutes, 42 U.S.C. (S) (S) 1320a-7a and 1320a-7b, or the regulations promulgated pursuant to such statutes or related state or local statutes or regulations or which are prohibited by rules of professional conduct.

2.27 UHS FACILITY SURVEYS. True and complete copies of any and all licensure survey reports and any and all Medicare and/or Medicaid and JCAHO or other accreditation survey reports issued within the 24-month period preceding the execution of this Agreement with respect to each UHS Facility for which surveys are conducted by the appropriate state or Federal agencies having jurisdiction thereof and JCAHO or accreditation bodies have been furnished to Desert Springs, along with true and complete copies of any and all plans of correction which the agencies required to be submitted in response to said survey reports.

2.28 RELATED PARTY TRANSACTIONS. To the knowledge of Summerlin, except as set forth in Schedule 2.28, and except for compensation to employees for services rendered, no current partner or officer of Summerlin or any affiliate thereof is presently, or during the last fiscal year has been, (a) a party to any material transaction with Summerlin (including, but not limited to, any contract or other arrangement providing for the furnishing of service by, or rental of real or personal property from, or otherwise requiring payments to, any such partner or officer, or (b) the direct or indirect owner of any interest in any person which is a present competitor, supplier or customer of Summerlin with respect to the business, nor does any such person receive income from any source other than Summerlin which should properly accrue to Summerlin.

2.29 NO BROKERS. Summerlin has not entered into any contract, arrangement or understanding with any person or firm which may result in the obligation of the Company or the other Party to pay any finder's fees, brokerage or agent's commissions or other like payments in connection with the negotiations leading to this Agreement or the consummation of the transactions contemplated hereby, and Summerlin is not aware of any claim or basis for any claim for payment of any finder's fees, brokerage or agent's commissions or other like payments in connection with the negotiations leading to this Agreement or the consummation of the transactions contemplated hereby.

2.30 NO MISREPRESENTATION OR OMISSION. No representation or warranty by Summerlin in this Article 2 or in any other Article or Section of this Agreement, or in any certificate or other document furnished or to be furnished by or on behalf of Summerlin pursuant hereto, contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary to make the statements contained therein not misleading.

3. REPRESENTATIONS AND WARRANTIES OF DESERT SPRINGS. Desert Springs hereby represents, warrants and agrees as follows:

3.1 EXISTENCE; GOOD STANDING; CORPORATE AUTHORITY. Desert Springs is a Nevada corporation duly organized, validly existing and in good standing under the laws of the State of Nevada. Desert Springs has all requisite corporate power and authority to own its properties and carry on its business as now conducted. The copies provided to Summerlin of the Articles of Incorporation and Bylaws of Desert Springs, as amended to date, are complete and correct and presently in effect. Desert Springs has not failed to qualify in any jurisdiction in which property

owned, leased or operated by it or the nature of the business conducted by it makes such qualification necessary and where the failure to so qualify would have a material adverse effect on it. Desert Springs is not in default with respect to any order of any court, governmental authority or arbitration board or tribunal to which it is a party or is subject.

3.2 AUTHORIZATION; VALIDITY AND EFFECT OF AGREEMENTS. The execution, delivery and performance of this Agreement and all agreements and documents contemplated hereby by Desert Springs and the consummation by it of the transactions contemplated hereby, have been duly and effectively authorized by all necessary corporate action on its part. This Agreement constitutes, and all agreements and documents contemplated hereby when executed and delivered pursuant hereto will constitute, the valid and legally binding obligations of Desert Springs, enforceable in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium or other similar laws of general application now or hereafter in effect relating to the enforcement of creditors' rights generally and except that remedies of specific performance, injunction and other forms of equitable relief are subject to certain tests of equity jurisdiction, equitable defenses and the discretion of the court before which any proceeding therefor may be brought. Except as set forth on Schedule 3.2 hereto, the execution and delivery of this Agreement by Desert Springs does not, and the consummation of the transactions contemplated hereby will not, except to the extent the same would not have a material adverse effect on it: (i) require the consent, approval or authorization of any person, corporation, partnership, joint venture or other business association or any governmental, public authority or accrediting body; (ii) violate, with or without the giving of notice or the passage of time, or both, any provisions of law or statute or any rule, regulation, order, award, judgment, or decree of any court or governmental authority applicable to such Party; or (iii) result in the breach or termination of any term or provision of, or constitute a default under, or result in the acceleration of or entitle any party to accelerate (whether after the giving of notice or the lapse of time or both) any obligation under, or result in the creation or imposition of any lien, charge, pledge, security interest or other encumbrance upon any part of the property of Desert Springs pursuant to any provision of, any order, judgment, arbitration award, injunction, decree, indenture, mortgage, lease, license, lien, or other agreement or instrument to which Desert Springs is a party or by which it is bound, or violate any provision of the Articles of Incorporation

or Bylaws of Desert Springs, as amended to the date of this Agreement.

3.3 NO BROKERS. Desert Springs has not entered into any contract, arrangement or understanding with any person or firm which may result in the obligation of the Company or the other Party to pay any finder's fees, brokerage or agent's commissions or other like payments in connection with the negotiations leading to this Agreement or the consummation of the transactions contemplated hereby, and Desert Springs is not aware of any claim or basis for any claim for payment of any finder's fees, brokerage or agent's commissions or other like payments in connection with the negotiations leading to this Agreement or the consummation of the transactions contemplated hereby.

4. COVENANTS OF SUMMERLIN AND DESERT SPRINGS.

4.1 ACCESS TO UHS FACILITIES AND ADDITIONAL INFORMATION.

4.1.1 From the date hereof until the Closing Date, Summerlin shall provide, and cause its agents (including counsel and accountants) to provide to Desert Springs reasonable access to and the right to inspect the Facilities Assets and the books and records pertaining to the Facilities Assets, and Summerlin will furnish and cause to be furnished to Desert Springs all material information concerning its businesses not otherwise disclosed pursuant to this Agreement, and such additional financial, operating and other data and information regarding Summerlin and its businesses and the Facilities Assets, as Desert Springs may from time to time reasonably request, without regard to where such information may be located.

4.1.2 Promptly after the execution of this Agreement, Summerlin shall deliver to Desert Springs, to the extent not already delivered, copies of all title insurance policies and binders in the possession of Summerlin for any of the Real Property and copies of all surveys of any of the Real Property in the possession of Summerlin.

4.2 OPERATIONS. From the date hereof until the Closing Date and except as otherwise expressly provided in this Agreement:

(a) each of Summerlin and Desert Springs will carry on its business in substantially the same manner as heretofore and not make any material change in its personnel,

operations, finances, accounting policies, or real or personal property;

(b) Summerlin will maintain the Facilities Assets and all parts thereof in their current condition, ordinary wear and tear excepted;

(c) Summerlin will perform all of its obligations relating to or affecting the Facilities Assets or the business of the UHS Facilities;

(d) Summerlin will use its reasonable efforts to obtain appropriate releases, consents, estoppels and other instruments as Desert Springs may reasonably request;

(e) Summerlin will keep in full force and effect present insurance policies or other comparable insurance and maintain sufficient liquid reserves to meet all deductible, self-insurance and copayment requirements under present insurance policies;

(f) Summerlin will maintain and preserve its business organizations and operations intact, and deal with its present employees at the UHS Facilities in a manner consistent with its existing personnel policies; Summerlin will maintain its relationships with physicians, suppliers and other persons having business relations with it; and Summerlin will take such actions as are reasonably necessary to facilitate the smooth, efficient and successful transition to the Company following the Closing Date of the business organizations and operations and employee and other relations of Summerlin; and

(g) Summerlin will permit and allow reasonable access by the Company to discuss post-closing employment with any of its personnel and to establish relationships with physicians, suppliers and others having business relations with it.

4.3 NEGATIVE COVENANTS. From the date hereof until the Closing Date, except as otherwise expressly permitted by this Agreement or without the prior written consent of Desert Springs:

(a) Summerlin will not amend or terminate any of the Assumed Contracts, enter into any contract or agreement or incur or agree to incur any liability, except in the ordinary and regular course of business, and in no event that requires the payment by Summerlin prior to the Closing Date or the Company following the Closing Date of an amount greater than twenty-five thousand dollars ($25,000) per contract or agreement, or that is

not terminable without cause or penalty within thirty (30) days following the Closing Date;

(b) Summerlin will not make offers to any of its employees for employment with it after the Closing Date;

(c) Summerlin will not increase compensation payable or to become payable to, make a bonus payment to, or otherwise enter into one or more bonus agreements with, any of its employees or agents, except in the ordinary and regular course of business in accordance with existing personnel policies;

(d) Summerlin will not create, assume or permit to exist any new Lien upon any of the Facilities Assets other than purchase money liens arising in the ordinary course of business;

(e) Summerlin will not sell, assign, transfer, distribute or otherwise dispose of any property, plant or equipment, except in the ordinary and regular business of the UHS Facilities with comparable replacement thereof;

(f) Summerlin will not take any action outside the ordinary and regular course of business;

(g) Summerlin will not take any action relating to its liquidation or dissolution; and

(h) Summerlin will not create, incur, assume, guarantee or otherwise become liable for, cancel, pay, agree to cancel or pay, provide for a complete or partial discharge in advance of a scheduled payment date with respect to, or waive any right to receive any direct or indirect payment or other benefit under, any liability except in the ordinary and regular course of business and in an amount not ex ceeding $25,000 individually or $50,000 in the aggregate.

4.4 GOVERNMENTAL APPROVALS. From the date hereof until the Closing Date, Summerlin shall (a) promptly apply for and use its reasonable best efforts to obtain prior to the Closing Date all consents, approvals, authorizations and clearances of governmental and regulatory authorities required of it to consummate the transactions contemplated hereby, (b) provide such information and communications to governmental and regulatory authorities as such authorities may reasonably request, and (c) assist and cooperate with such other Party to obtain all consents, licenses, permits, approvals, authorizations

and clearances of governmental and regulatory authorities that such other Party reasonably deems necessary or appropriate, and to prepare any document or other information required of the Company following the Closing by any such authorities, in order to consummate the transactions contemplated herein.

4.5 INSURANCE RATINGS. From the date hereof until the Closing Date, Summerlin will take all action it deems reasonably necessary to enable the Company following the Closing Date to succeed to the worker's compensation and unemployment insurance ratings of Summerlin with respect to the UHS Facilities for insurance purposes. The Company shall not be obligated to succeed to any such rating except as it may elect to do so.

4.6 EMPLOYEES; EMPLOYEE BENEFIT PLANS. Summerlin shall retain all liabilities and obligations for all benefits under its Employee Benefit Plans, regardless of whether any such liabilities and obligations are disclosed on the Summerlin Balance Sheet (including, without limitation, any and all workers' compensation, health, disability or other benefits due to or for the benefit of any employees of Summerlin or their covered dependents) with the exception of vacation, sick leave, paid time off and the like, and COBRA, all of which will be assumed by the Company. As of the Closing Date, Summerlin shall terminate the participation of all employees in any Employee Pension Benefit Plan in which any of Summerlin's employees participates, and provide for distributions pursuant to the terms of the plans, ERISA and the Code.

4.7 FURTHER ACTS AND ASSURANCES. At any time and from time to time at and after the Closing Date, upon request of the Company, Summerlin shall do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, such further acts, deeds, assignments, transfers, conveyances, powers of attorney, confirmations and assurances as the Company may reasonably request to more effectively convey, assign and transfer to and vest in the Company, full legal right, title and interest in and actual possession of the Facilities Assets and the business of Summerlin, to confirm each Party's capacity and ability to perform its post-closing covenants and agreements under this Agreement, and to generally carry out the purposes and intent of this Agreement. Summerlin shall also furnish the Company with such information and documents in its possession or under its control, or which Summerlin can execute or cause to be executed, as will enable the Company to prosecute any and all petitions, applications, claims and demands by or against third parties relating to or constituting a part of the Facilities Assets and the business of Summerlin. After the Closing Date,

Summerlin shall promptly remit to the Company any payments received by Summerlin with respect to any accounts receivable or other amounts sold to the Company; and similarly, after the Closing Date the Company shall promptly remit to Summerlin any payments received by the Company with respect to accounts receivable or other amounts retained by Summerlin. Any funds so collected will be remitted within five (5) days following receipt of such payment.

4.8 VALLEY TRANSACTION. Simultaneous with the contribution of the Facilities Assets and the payment of the Desert Springs Payment to Summerlin pursuant to this Agreement, (i) Valley Hospital Medical Center, Inc., a Nevada corporation ("Valley"), shall contribute, convey, assign, transfer and deliver to Valley Health System LLC, a limited liability company ("Newco UHS-1") created by Valley pursuant to the LLC Act, and Desert Springs shall contribute, convey, assign, transfer and deliver to Newco Q LLC, a limited liability company ("Newco Q-1") created by Desert Springs pursuant to the LLC Act, those assets and properties of Valley, in the case of Newco UHS-1, and those assets and properties of Desert Springs, in the case of Newco Q-1, which are in the nature of the Facilities Assets (but excluding those assets and properties which are in the nature of Excluded Assets), (ii) Newco UHS-1 shall assume and agree to pay, perform and discharge the liabilities and obligations of Valley which are in the nature of Assumed Liabilities, and (iii) Newco Q-1 shall assume and agree to pay, perform and discharge the liabilities and obligations of Desert Springs which are in the nature of Assumed Liabilities. Immediately following the consummation of such transactions in accordance with the preceding sentence, Newco Q-1 shall be merged with and into Newco UHS-1 pursuant to an agreement of merger on such terms and conditions as are mutually acceptable to Valley, Summerlin and Desert Springs (the "Merger"). Following the Merger, the separate legal existence of Newco Q-1 shall cease and Newco UHS-1 shall continue as the entity surviving the Merger (the "Valley Company"), with Valley thereafter owning a 72.5% membership interest in the Valley Company and Desert Springs thereafter owning a 27.5% membership interest in the Valley Company.

4.9 ADDITIONAL PROPERTIES AND ASSETS. [INTENTIONALLY OMITTED.]

5. MATTERS PERTAINING TO THE COMPANY.

5.1 EMPLOYEE MATTERS. Subject to the exclusions set forth in this Section, Summerlin and Desert Springs will cause the Company to offer to employ as of the Closing Date, on an at-

will basis (subject to any existing union contracts), all employees working at the UHS Facilities immediately prior to the Closing Date (including those on leave) so that Summerlin may avoid the imposition of any liability under the WARN Act and the Company shall pay all liability of Summerlin under the WARN Act resulting from the Company's failure to do so. For the employees who accept the Company's offer of employment, the Company shall recognize the employee's length of service with Summerlin for vesting and benefits eligibility purposes under the Company's employee benefit programs. Notwithstanding the foregoing, the Company shall have no obligation to offer employment to, except as required under any union contract, (i) those employees who are "part-time employees" (as defined in the WARN Act) and (ii) those employees who voluntarily elect to leave the employment of Summerlin.

5.2 FURTHER ACTS AND ASSURANCES. At any time and from time to time at and after the Closing Date, Summerlin and Desert Springs shall cause the Company to execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered such further acts, deeds, assignments, transfers, conveyances, powers of attorney, confirmations and assurances as the Parties may reasonably request to confirm the capacity and ability of the Company to perform those acts relating to the post-closing covenants and agreements of the Parties (with respect to causing the Company to perform such acts) under this Agreement, and to generally carry out the purposes and intent of this Agreement. Summerlin and Desert Springs shall cause the Company to furnish Summerlin with such information and documents in its possession or under its control, or which it can execute or cause to be executed, as will enable Summerlin to prosecute any and all petitions, applications, claims and demands by or against third parties relating to or constituting a part of the Facilities Assets and the business of the UHS Facilities for which Summerlin is liable hereunder or relating to Government Reimbursement Programs.

6. CONDITIONS OF CLOSING.

6.1 CONDITIONS OF CLOSING. The obligations of Summerlin to contribute the Facilities Assets and of Desert Springs to make the Desert Springs Payment, the obligation of Summerlin to sell and deliver to Desert Springs a 26.115% membership interest in the Company, and the obligations of the Parties to otherwise cause the consummation of the transactions contemplated by this Agreement, shall be subject to and conditioned upon the satisfaction at the Closing Date of each of the following conditions (it being understood and agreed that (i)

the conditions to the benefit of Summerlin are solely with respect to the Desert Springs Payment and Desert Springs and not with respect to itself or the UHS Facilities, and (ii) the conditions to the benefit of Desert Springs are solely with respect to the UHS Facilities and Summerlin and not with respect to itself or the Desert Springs Payment):

6.1.1 All representations and warranties of the Parties contained in this Agreement and the Schedules hereto shall be true and correct in all material respects at and as of the Closing Date, the Parties shall have performed in all material respects all agreements and covenants and satisfied all conditions on their part to be performed or satisfied by the Closing Date pursuant to the terms of this Agreement, and each Party shall have received a certificate of the other Party dated the Closing Date to such effect.

6.1.2 Except as caused solely by any change in the relevant market conditions and prospects, for which the other such Party shall assume all risk, there shall have been no material adverse change since September 30, 1997 in the financial condition, business or affairs of Summerlin or Desert Springs; and neither Summerlin nor Desert Springs shall have suffered any material loss (whether or not insured) by reason of physical damage caused by fire, earthquake, accident or other calamity which substantially affects the value of its assets, properties or business the insurance proceeds related to which are not, in the reasonable opinion of such other Party, adequate to repair such damage and compensate for any lost business related thereto. Summerlin and Desert Springs each shall have received a certificate of the other such Party dated the Closing Date that the statements set forth in this Section 6.1.2 are true and correct.

6.1.3 Each Party shall have delivered to the other Party a Certificate of the Secretary of State (or other authorized officer) of the State of its jurisdiction of incorporation or formation, and certifying as of a date reasonably close to the Closing Date that such Party has filed all required reports, paid all required fees and taxes, and is, as of such date, in good standing and authorized to transact business as a domestic corporation or limited partnership, as the case may be.

6.1.4 Each Party shall have delivered to the other Parties a certificate of its corporate or partnership Secretary certifying:

(i) The Resolutions of its Board of Directors or its general partner authorizing the execution, performance and delivery of this Agreement and the execution, performance and delivery of all agreements, documents and transactions contemplated hereby;

(ii) The incumbency of its officers or the officers of its general partner executing this Agreement and all agreements and documents contemplated hereby; and

(iii) That the Articles of Incorporation and Bylaws of Desert Springs, or the Agreement of Limited Partnership of Summerlin, as the case may be, attached to such certificate are complete and correct and in effect as of the date of such certification.

6.1.5 Each Party shall have received from counsel for the other Party (which may be house counsel), an opinion, dated the Closing Date, satisfactory to such Party in the form attached hereto as Exhibit A.

6.1.6 All material authorizations, consents, waivers, approvals, orders, registrations, qualifications, designations, declarations, filings or other actions required with or from any governmental entity (including without limitation receipt of licenses (or commitments to issue licenses) to own and operate the UHS Facilities and for the Company following the Closing Date to conduct the businesses of Summerlin as currently conducted) in connection with the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby shall have been duly obtained and shall be reasonably satisfactory to the Parties, and copies thereof shall be delivered to the Parties prior to the Closing Date.

6.1.7 On the Closing Date, no injunction or order shall be in effect prohibiting consummation of the transactions contemplated hereby or which would make the consummation of such transactions unlawful and no action or proceeding shall have been instituted and remain pending before a governmental entity to restrain or prohibit the transactions contemplated by this Agreement and no adverse decision shall have been made by any such governmental entity which is reasonably likely to materially adversely affect the Company, the Parties or the Facilities Assets. No federal, state or local statute, rule or regulation shall have been enacted the effect of which would be to prohibit, materially restrict, impair or delay the consummation of the transactions contemplated hereby or materially restrict or impair

the ability of the Company following the Closing Date to own the Facilities Assets or to conduct the businesses relating thereto.

6.1.8 The receipt by Summerlin and Desert Springs of standard ALTA or CLTA fee owner's title insurance policies using the current ALTA or CLTA form(the "Title Policies") insuring title (at standard market rates for fee simple or leasehold title) to each parcel of Real Property in the Company, as fee owner, subject only to the Permitted Encumbrances, in the aggregate amount of $60,000,000, and issued by a national title insurance company (the "Title Company"). The Title Policies shall be issued with all standard or general printed exceptions (other than the survey exceptions) deleted and will

contain a so-called "non-imputation" endorsement and such additional endorsements as the Parties may reasonably require.

6.1.9 Execution and delivery by Summerlin of the Instruments of Conveyance set forth in Section 1.4.

6.1.10 Execution and delivery by the Company and the parties thereto of the Management Agreement in substantially the form attached hereto as Exhibit B (the "Management Agreement").

6.1.11 Execution and delivery by the Company, Summerlin and Desert Springs of the Operating Agreement in substantially the form attached hereto as Exhibit C (the "Operating Agreement").

6.1.12 The Company's receipt of current as-built surveys of the Real Property, prepared and certified by a registered surveyor licensed in the State of Nevada (the "Surveys"). The Surveys shall be in form and substance mutually satisfactory to Summerlin and Desert Springs.

6.1.13 Summerlin's receipt of the membership interest in the Company to be distributed to it in accordance with Section 1.1 hereof.

6.1.14 Summerlin's receipt of the Desert Springs Payment in immediately available funds in accordance with Sections 1.1 and 1.5 hereof.

6.1.15 Desert Springs' receipt from Summerlin of a 26.115% membership interest in the Company free and clear of all Liens other than Permissible Liens.

6.1.16 Execution and delivery by the parties thereto of the Survey Agreement substantially in the form attached hereto as Exhibit D.

7. NATURE AND SURVIVAL OF REPRESENTATIONS AND WARRANTIES; INDEMNIFICATION.

7.1 EVENTS OF DEFAULT. A breach as a result of the failure of a Party to perform any of its agreements, covenants and obligations under this Agreement, shall be considered a default hereunder giving rise to the indemnification set forth in Section 7.3 hereof.

7.2 SURVIVAL OF REPRESENTATIONS, ETC. All representations and warranties made by the Parties in this Agreement or in any exhibit, schedules or certificates hereof or in connection with the transactions contemplated hereby shall terminate at the Closing Date, and thereafter be of no further force or effect and no action or cause of action on account thereof shall survive. All other agreements, covenants and obligations of the Parties in this Agreement or in any exhibit, schedules, certificate, document or instrument delivered pursuant to the provisions hereof or in connection with the transactions contemplated hereby, and the remedies of the Parties with respect thereto, shall survive the closing of the transactions contemplated by this Agreement.

7.3 INDEMNIFICATION. From and after the Closing Date, each Party, as the case may be (an "Indemnifying Party"), severally and not jointly, shall indemnify and hold the other Party and the Company, as the case may be, and their respective affiliates, agents and representatives (an "Indemnified Party"), harmless from and against any and all claims, losses, expenses, damages or liabilities arising out of or relating to any of the following: (i) any breach, violation or nonperformance of a covenant, agreement or obligation to be performed hereunder on the part of any Indemnifying Party; (ii) any claims against, or liabilities or obligations of an Indemnifying Party not specifically assumed by an Indemnified Party pursuant to this Agreement; (iii) any claims against, or liabilities or obligations relating to the Summerlin Limited Partnership Agreement, or the partnership actions involved in accomplishing this transaction; or (iv) any actions, judgments, costs and expenses (including reasonable attorneys' fees and all other expenses incurred in investigating, preparing or defending any litigation or proceedings, commenced or threatened) incident to any of the foregoing or the enforcement of this Section. In addition to the foregoing, following the Closing Date the Parties shall cause the Company to indemnify and hold the Parties and their affiliates harmless from and against any and all claims, losses, expenses, damages or liabilities arising out of or relating to the Company's assumption of the Assumed Liabilities and any actions, judgments, costs and expenses (including reasonable attorneys' fees and all other expenses incurred in investigating, preparing or defending any litigation or proceedings, commenced or threatened) incident to the foregoing. Any indemnification payment pursuant to the foregoing shall include interest at a floating rate equal the prime rate of Citibank N.A., from time to time, from the date the Indemnified Party provides the Indemnifying Party notice of the loss, cost, expenses or damages until the date of payment.

7.4 REPRESENTATION, COOPERATION AND SETTLEMENT.

(a) An Indemnified Party agrees to give prompt written notice to an Indemnifying Party of any claim against it which might give rise to a claim by such Indemnified Party based on the indemnity agreement contained in Section 7.3 hereof, stating the nature and basis of the first-mentioned claim and the amount thereof; provided, that the failure of the Indemnified Party to give the Indemnifying Party prompt notice shall not relieve the Indemnifying Party of any of its obligations hereunder, but may create a cause of action for breach for damages directly attributable to such delay.

(b) The Indemnifying Party shall have full responsibility and authority with respect to the payment, settlement, compromise or other disposition of any third party dispute, action, suit or proceeding subject to indemnification by such Indemnifying Party hereunder, including, without limitation, the right to conduct and control all negotiations with respect to the settlement, compromise or other disposition thereof, and the Indemnified Party agrees to cooperate with the Indemnifying Party in any reasonable manner requested by the Indemnifying Party in connection with any such negotiations. The Indemnified Party shall have the right, without prejudice to the Indemnifying Party's rights under this Agreement, at the Indemnified Party's sole expense, to be represented by counsel of its own choosing and with whom counsel for the Indemnifying Party shall confer in connection with the defense of any such action, suit or proceeding. The Parties agree to render to each other such assistance as may reasonably be requested in order to insure the proper and adequate defense of any such action, suit or proceeding. Notwithstanding the foregoing, the Indemnifying Party may compromise and settle any claim, action, or suit to which it must indemnify an Indemnified Party hereunder, provided that it gives the Indemnified Party advance notice of any proposed compromise or settlement and shall obtain the consent of the Indemnified Party to such proposed compromise or settlement, which consent shall not be unreasonably withheld.

8. TRANSACTIONS SUBSEQUENT TO THE CLOSING DATE

8.1 ACCESS TO RECORDS. From time to time after the Closing Date, upon the request of the Company, Summerlin will provide the Company with reasonable access to any records, documents and data relating to the Facilities Assets retained by Summerlin wherever located. From time to time after the Closing Date, upon the request of either Summerlin or Desert Springs, the other such Party shall cause the Company to make available to the requesting Party any records, documents and data relating to the Facilities Assets acquired by the Company as needed for any lawful purpose (including such Party's inspection and copying of the

same), and Summerlin shall have the same rights of access to inspect and copy that Summerlin had prior to the Closing Date; provided, however, that any records, documents and data delivered to or made available to such Party and its representatives will be treated as strictly confidential by such Party and its representatives, will not be directly or indirectly divulged, disclosed or communicated to any other person other than such Party and its representatives who are reasonably required to have access to such information (unless such Party is compelled to disclose the same by judicial or administrative process), and will be returned to the Company when such Party's use therefor has terminated. Summerlin and Desert Springs shall cause the Company to instruct the appropriate employees of the Company to cooperate in providing access to such records to such Parties and their authorized representatives as contemplated herein. Access to such records shall be, wherever reasonably possible, during normal business hours, with reasonable prior written notice to the Company of the time when such access shall be needed. Summerlin and Desert Springs shall cause the Company to provide sufficient office space to such requesting Party without charge to conduct the activities described herein. The employees, representatives and agents of Summerlin and Desert Springs shall conduct themselves in such a manner so that the Company's normal business activities shall not be unduly or unnecessarily disrupted. For a period of seven (7) years following the Closing Date, neither Summerlin nor Desert Springs shall, and each of such Parties shall cause the Company not to, discard, destroy or otherwise dispose of records, documents and data relating to the Facilities Assets or such Parties without first making such records, documents and data available to the other such Party for inspection and copying. Summerlin and Desert Springs shall cause the Company to retain the records, documents and data pertaining to the UHS Facility at the UHS Facility (or at such other locations as the Company and such Parties shall determine by their mutual agreement from time to time) at the Company's cost, until the expiration of seven (7) years from the Closing Date.

8.2 LITIGATION COOPERATION. After the Closing Date, upon prior reasonable written request, each Party shall cooperate with the other and with the Company, at the requesting Party's expense (but including only out-of-pocket expenses to third parties and not the costs incurred by any Party for the wages or other benefits paid to its partners, officers, directors or employees), in furnishing information, testimony and other assistance in connection with any actions, tax or cost report audits, proceedings, arrangements or disputes involving any of the Parties hereto (other than in connection with disputes between the Parties hereto) and based upon contracts, arrangements or acts of any Party or any of their respective affiliates which were in effect or occurred on or prior to the Closing Date and which

related to the Facilities Assets, including, without limitation, arranging discussions with, and the calling as witnesses of, officers, directors, managers, employees, agents and representatives of the Company.

9. TERMINATION.

9.1 METHODS OF TERMINATION. The transactions contemplated herein may be terminated at any time before or after approval thereof by the Parties, but not later than the Closing Date:

(i) By mutual consent of the Parties; or

(ii) by a Party after March 1, 1998 if any of the conditions in Section 6.1 to the benefit of such Party shall not have been met or waived in writing prior to such date.

9.2 PROCEDURE UPON TERMINATION. In the event of termination pursuant to Section 9.1 hereof, written notice thereof shall forthwith be given to the other Parties and the transactions contemplated by this Agreement shall be terminated, without further action by any party. If the transactions contemplated by this Agreement are terminated as provided herein:

(i) Each Party will redeliver all documents, work papers and other material of the other Parties relating to the transactions contemplated hereby, whether so obtained before or after the execution of this Agreement, to the Party furnishing the same; and

(ii) No Party shall have any liability or further obligation to the other Parties other than the confidentiality obligations set forth in Section 10.6 hereof.

10. MISCELLANEOUS.

10.1 NOTICE. Any notice required or permitted hereunder shall be in writing and shall be sufficiently given if personally delivered or mailed by certified or registered mail, return receipt requested, addressed as follows:

IF TO SUMMERLIN: Universal Health Services, Inc.
367 South Gulph Road
Box 61558
King of Prussia, Pennsylvania 19406
Attention: Michael G. Servais,

Senior Vice President

COPIES TO: Bruce Gilbert, Esq.
General Counsel
Universal Health Services, Inc.
367 South Gulph Road
Box 61558
King of Prussia, Pennsylvania 19406

AND

Klett Lieber Rooney & Schorling
A Professional Corporation
40th Floor, One Oxford Centre
Pittsburgh, Pennsylvania 15219

Attention: Robert T. Harper, Esq.

IF TO DESERT SPRINGS:

Quorum Health Group, Inc.
103 Continental Place
Brentwood, Tennessee 37027
Attention: Ashby Q. Burks,
Vice President/General Counsel
Facsimile No. (615) 371-4788

COPIES TO: Ernest E. Hyne, II, Esquire
Harwell Howard Hyne
Gabbert & Manner, P.C.
1800 First American Center
315 Deaderick Street
Nashville, Tennessee 37238

IF TO THE COMPANY:

Summerlin Hospital Medical Center LLC
c/o Universal Health Services, Inc.
367 South Gulph Road
Box 61558
King of Prussia, Pennsylvania 19406
Attention: Michael G. Servais,
Senior Vice President

and

Summerlin Hospital Medical Center LLC
c/o Quorum Health Group, Inc.
103 Continental Place
Brentwood, Tennessee 37027
Attention: Ashby Q. Burks,
Vice President/General Counsel

(or to such other address as any Party or the Company, as the case may be, shall specify by written notice so given), and shall be deemed to have been duly delivered: (a) if delivered personally or sent by facsimile, on the date received and (b) if delivered by overnight courier, on the day after mailing.

10.2 EXECUTION OF ADDITIONAL DOCUMENTS. The Parties will at any time, and from time to time after the Closing Date, upon request of any other Party, execute, acknowledge and deliver all such further acts, deeds, assignments, transfers, conveyances, powers of attorney and assurances as may be required to carry out the intent of this Agreement and to transfer and vest title to any Facilities Assets or membership interests being transferred hereunder, and to protect the right, title and interest in and enjoyment of such membership interests and of all of the Facilities Assets granted, assigned, transferred, delivered and conveyed pursuant to this Agreement with all costs being borne by the Company; provided, however, that this Agreement shall be effective regardless of whether any such additional documents are executed.

10.3 WAIVERS AND AMENDMENT.

(a) Each Party may, by written notice to each of the other Parties executed by a properly authorized officer, in the case of Desert Springs, or its general partner, in the case of Summerlin, (i) extend the time for the performance of any of the obligations or other actions of another Party; (ii) waive any inaccuracies in the representations or warranties of another Party contained in this Agreement; (iii) waive compliance with any of the covenants of another Party contained in this Agreement; and (iv) waive or modify performance of any of the obligations of another Party.

(b) This Agreement may be amended, modified or supplemented only by a written instrument executed by all the Parties. Except as provided in the preceding sentence, no action taken pursuant to this Agreement, including, without limitation, any investigation by or on behalf of any Party, shall be deemed to constitute a waiver by the Party taking such action of compliance with any representations, warranties, covenants or agreements contained herein. The waiver by any Party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

10.4 EXPENSES. Whether or not the transactions contemplated by this Agreement are consummated, each Party shall pay the fees and expenses of their respective counsel,

accountants, other experts and all other expenses incurred by them incident to the negotiation, preparation and execution of this Agreement and the performance by them of their obligations hereunder.

10.5 OCCURRENCE OF CONDITIONS PRECEDENT. Each of the Parties agrees to use its reasonable efforts to cause all conditions precedent to its obligations under this Agreement to be satisfied.

10.6 CONFIDENTIALITY OBLIGATIONS; PUBLIC ANNOUNCEMENTS.

(a) Each Party agrees that it will treat in confidence all documents, materials and other information which it shall have obtained regarding the other Party during the course of the negotiations leading to the consummation of the transactions contemplated hereby (whether obtained before or after the date of this Agreement), the investigation provided for herein and the preparation of this Agreement and other related documents, and, in the event the transactions contemplated hereby shall not be consummated, each Party will return to the other Parties all copies of non-public documents and materials which have been furnished in connection therewith. The obligation of each Party to treat such documents, materials and other information in confidence shall not apply to any information which (i) such Party can demonstrate was already lawfully in its possession prior to the disclosure thereof by any other Party, (ii) is known to the public and did not become so known through any violation of a legal obligation, (iii) became known to the public through no fault of such Party or (iv) is later lawfully acquired by such Party from other sources. Except as required by law and except for disclosures to its advisors, who shall be advised of the confidentiality requirements herein, no Party shall disclose to any person the identity of any other Party, the terms or provisions of this Agreement or the content of any discussions or communications between any of the Parties.

(b) Any public announcement or similar publicity with respect to this Agreement or the transactions contemplated hereby will be issued, if at all, at such time and in such manner as the Parties determine. Unless consented to by each Party in advance or required by law, prior to the Closing Date, each Party shall keep this Agreement strictly confidential and may not make any disclosure of this Agreement to any person. Summerlin will consult with Desert Springs concerning the means by which the employees, customers, and suppliers of Summerlin and others having dealings with it will be informed of the transactions contemplated by this Agreement.

10.7 BINDING EFFECT; BENEFITS. Subject to Section 10.14, this Agreement shall be binding upon and shall inure to the benefit of the Parties and their respective heirs, successors, executors, administrators and assigns. Notwithstanding anything contained in this Agreement to the contrary, nothing in this Agreement, expressed or implied, is intended to confer on any person other than the Parties or their respective heirs, successors, executors, administrators and assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement.

10.8 ENTIRE AGREEMENT. This Agreement, together with the Exhibits, Schedules and other documents contemplated hereby, constitute the final written expression of all of the agreements between the Parties, and is a complete and exclusive statement of those terms. It supersedes all prior understandings and negotiations (written and oral) concerning the matters specified herein. Any representations, promises, warranties or statements made by a Party that differ in any way from the terms of this written Agreement and the Exhibits, Schedules and other documents contemplated hereby, shall be given no force or effect. The Parties specifically represent, each to the other, that there are no additional or supplemental agreements between them related in any way to the matters herein contained unless specifically included or referred to herein. No addition to or modification of any provision of this Agreement shall be binding upon any party unless made in writing and signed by all Parties.

10.9 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Nevada exclusive of the conflict of law provisions thereof.

10.10 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

10.11 HEADINGS. Headings of the Articles and Sections of this Agreement are for the convenience of the Parties only, and shall be given no substantive or interpretive effect whatsoever.

10.12 INCORPORATION OF EXHIBITS AND SCHEDULES. All Exhibits and Schedules attached hereto are by this reference incorporated herein and made a part hereof for all purposes as if fully set forth herein.

10.13 SEVERABILITY. If for any reason whatsoever, any one or more of the provisions of this Agreement shall be held or deemed to be inoperative, unenforceable or invalid as applied to

any particular case or in all cases, such circumstances shall not have the effect of rendering such provision invalid in any other case or of rendering any of the other provisions of this Agreement inoperative, unenforceable or invalid.

10.14 ASSIGNABILITY. Neither this Agreement nor any of the Parties' rights hereunder shall be assignable by any Party without the prior written consent of the other Parties.

[SIGNATURES ARE ON THE NEXT FOLLOWING PAGES]

IN WITNESS WHEREOF, the Parties have executed this Agreement and caused the same to be duly delivered on their behalf on the day and year hereinabove first set forth.

SUMMERLIN HOSPITAL MEDICAL CENTER, L.P.

BY: UHS HOLDING COMPANY, INC., ITS GENERAL PARTNER

By:________________________

Title:_____________________

NC-DSH, INC.

By:________________________

Title:_____________________

JOINDER AGREEMENT

The undersigned hereby agrees to become a party to that certain Contribution Agreement (the "Contribution Agreement") by and among Summerlin Hospital Medical Center, L.P., a Delaware limited partnership ("Summerlin") and NC-DSH, Inc., a Nevada corporation ("Desert Springs"), for the sole purpose of unconditionally guaranteeing the performance of the obligations of and the payments by Summerlin under Section 7.3 of the Contribution Agreement and for no other purpose. By executing this Joinder Agreement the undersigned hereby guarantees the due and punctual payment and performance by Summerlin of its obligations under Section 7.3 of the Contribution Agreement. This Joinder Agreement may not be terminated by the undersigned until such time as all amounts due and obligations owing or to be owed by Summerlin under such Section shall have been fully paid and performed. In the event of breach under Section 7.3, the parties thereto shall have the right to proceed against the undersigned or Summerlin separately, jointly, or against the undersigned without first proceeding against Summerlin. Bankruptcy or the like of Summerlin shall be no defense to the undersigned.

IN WITNESS WHEREOF, and intending to be legally bound hereby, the undersigned has executed this Joinder Agreement this 30th day of January, 1998.

UNIVERSAL HEALTH SERVICES, INC.

By:________________________________

Title:_____________________________

JOINDER AGREEMENT

The undersigned hereby agrees to become a party to that certain Contribution Agreement (the "Contribution Agreement") by and among Summerlin Hospital Medical Center, L.P., a Delaware limited partnership ("Summerlin") and NC-DSH, Inc., a Nevada corporation ("Desert Springs"), for the sole purpose of unconditionally guaranteeing the performance of the obligations of and payments by Desert Springs under Section 7.3 of the Contribution Agreement and for no other purpose. By executing this Joinder Agreement the undersigned hereby guarantees the due and punctual payment and performance by Desert Springs of its obligations under Section 7.3 of the Contribution Agreement. This Joinder Agreement may not be terminated by the undersigned until such time as all amounts due and obligations owing or to be owed by Desert Springs under such Section shall have been fully paid and performed. In the event of breach under Section 7.3, the parties thereto shall have the right to proceed against the undersigned or Desert Springs separately, jointly, or against the undersigned without first proceeding against Desert Springs. Bankruptcy or the like of Desert Springs shall be no defense to the undersigned.

IN WITNESS WHEREOF, and intending to be legally bound hereby, the undersigned has executed this Joinder Agreement this 30th day of January, 1998.

QUORUM HEALTH GROUP, INC.

By:________________________________

Title:_____________________________

SCHEDULES, EXHIBITS AND APPENDICES
TO CONTRIBUTION AGREEMENT

Schedule	
1.1(b)	Tangible Personal Property
1.3.1	Assumed Contracts
1.5	Permissible Liens
1.6(c)	List of Additional Assumed Liabilities
1.7(g)	Liens and Mortgages Not Released at Closing
2.2	Authorization; Validity and Effect of Agreements
2.3	Subsidiaries; Debt and Equity Securities
2.4	Partnership Interests; Outstanding Rights, Warrants, etc.
2.6	Financial Statements
2.7	Absence of Undisclosed Liabilities
2.8	Absence of Certain Changes or Events
2.9	Taxes
2.10	Real Property
2.10(c)	Navigable Water
2.10(h)	Liens on Real Property
2.10(j)	Leases of Real Property
2.11	Exceptions to Sufficiency of Facilities Assets
2.13	List of Contracts and Other Data
2.14	Exceptions to No Breach or Default
2.15	Labor Controversies
2.16	Litigation

2.18 Licenses; Permits; Authorizations

2.19 Compliance with Applicable Law; Environmental Laws

2.20.1 Employee Benefit Plans

2.20.2 Employees

2.22 Trade Notes and Accounts Receivable; Aging Schedule; Prepayments

2.25 Insurance Policies; Pending Insurance Claims

2.26(a) Professional Staff

2.26(b) Medicare and Medicaid Participation

2.26(c) Cost Reports

2.28 Related Party Transactions

3.2 Authorization; Validity and Effect of Agreements

Exhibit	
A	Form of Opinion of Parties' Counsel
B	Form of Management Agreement
C	Form of Operating Agreement
D	Form of Survey Agreement

EXHIBIT 10.32

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

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

2. Stock Subject to the Plan. The Company may issue and sell a total of 3,000,000 shares of its Class B Common Stock, $.01 par value (the "Common Stock"), pursuant to the Plan. Such shares may be either authorized and unissued or held by the Company in its treasury. New options may be granted under the Plan with respect to shares of Common Stock which are covered by the unexercised portion of an option which has terminated or expired by its terms, by cancellation or otherwise.

3. Administration. The Plan will be administered by the Board of Directors of the Company (the "Board"). Subject to the provisions of the Plan, the Board, acting in its sole and absolute discretion, will have full power and authority to grant options under the Plan, to interpret the provisions of the Plan and option agreements made under the Plan, to supervise the administration of the Plan, and to take such other action as may be necessary or desirable in order to carry out the provisions of the Plan. The Board may act by the vote of a majority of its members present at a meeting at which there is a quorum or by unanimous written consent. The decision of the Board as to any disputed question, including questions of construction, interpretation and administration, will be final and conclusive on all persons. The Board will keep a record of its proceedings and acts and will keep or caused to be kept such books and records as may be necessary in connection with the proper administration of the Plan. Notwithstanding the foregoing, the Board shall have the authority to appoint a committee (the "Committee") of the Board whose members shall satisfy the requirements of Section 162(m) of the Internal Revenue Code of 1986 (the "Code"), and the requirements of Rule 16b-3(b)(3)(i) under the Securities Exchange Act of 1934, as amended (or any successor laws or regulations), to grant options to executive officers of the Company and, all references to "the Board" hereunder with respect to the grant of such options shall be deemed to refer to such Committee.

4. Eligibility. Options may be granted under the Plan to present or future employees of the Company or a subsidiary of the Company (a "Subsidiary") within the meaning of Section 424(f) of the Code, consultants to the Company or a Subsidiary who are not employees, and to directors of the Company or a Subsidiary whether or not they are employees of or consultants to the Company and/or a Subsidiary. Subject to the provisions of the Plan, the Board may from time to time select the persons to whom options will be granted, and will fix the number of

shares covered by each such option and establish the terms and conditions thereof (including, without limitation, exercise price, which in the case of grants by the Committee shall not be less than fair market value of the Common Stock on the date of grant, and restrictions on exercisability of the option or on the shares of Common Stock issued upon exercise thereof). Notwithstanding anything to the contrary contained herein no person may receive grants of options to purchase more than 200,000 shares in any one calendar year.

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

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

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

(c) Payment of Exercise Price. The purchase price of shares of Common Stock acquired pursuant to the exercise of an option granted under the Plan may be paid in cash and/or such other form of payment as may be permitted under the option agreement, including, without limitation, previously-owned shares of Common Stock. The Board may permit the payment of all or a portion of the purchase price in installments (together with interest) over a period of not more than 5 years. The Board may permit the Company to lend money to employees for purposes of exercising options and paying any income tax due upon exercise. The Board may, in its sole discretion, forgive any amounts due under the loans made hereunder under such conditions as it deems appropriate.

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

(e) Nontransferability of Options. Options granted under the Plan may be assigned or transferred to members of the immediate family of optionee or trusts for the benefit

of immediate family members, unless otherwise prohibited by the Option Agreement, by will or by the applicable laws of descent and distribution or dissemination; and each such option may be exercised during the optionee's lifetime only by the optionee.

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

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

6. Capital Changes, Reorganization, Sale.

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

(b) Cash, Stock or Other Property for Stock. Except as provided in subparagraph (c) below, upon a merger (other than a merger of the Company in which the holders of Common Stock immediately prior to the merger have the same proportionate ownership of Common Stock in the surviving corporation immediately after the merger), consolidation, acquisition of property or stock, separation, reorganization (other than a mere reincorporation or the creation of a holding company) or liquidation of the Company, as a result of which the Stockholders of the Company receive cash, stock or other property in exchange for or in connection with their shares of Common Stock, any option granted hereunder shall terminate, but the optionee shall have the right

immediately prior to any such merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation to exercise his or her option in whole or in part to the extent permitted by the option agreement, and, if the Board in its sole discretion shall determine, at the time of grant or otherwise, may exercise the option whether or not the vesting requirements set forth in the option agreement have been satisfied.

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

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

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

7. Amendment and Termination of the Plan. The Board may amend or terminate the Plan at any time. No amendment or termination may affect adversely any outstanding option without the written consent of the optionee.

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

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

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

Exhibit 22

SUBSIDIARIES OF THE COMPANY

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
Aiken Regional Medical Centers, Inc.	South Carolina
The Alliance for Creative Development, Inc.	Pennsylvania
Alliance Regional Health Plans, Inc. (Non-profit)	Texas
The Arbour, Inc.	Massachusetts
Arbour Elder Services, Inc.	Massachsetts
Arkansas Surgery Center of Fayetteville, L.P.	Arkansas
ASC of Clarkston, Inc.	Michigan
ASC of Corona, Inc.	California
ASC of Las Vegas, Inc.	Nevada
ASC of Littleton, Inc.	Colorado
ASC of Midwest City, Inc.	Oklahoma
ASC of New Albany, Inc.	Indiana
ASC of Palm Springs, Inc.	California
ASC of Ponca City, Inc.	Oklahoma
ASC of Springfield, Inc.	Missouri
ASC of St. George, Inc.	Utah
Auburn Regional Medical Center, Inc.	Washington
The BridgeWay, Inc.	Arkansas
Chalmette Medical Center, Inc.	Louisiana
Children's Hospital of McAllen, Inc.	Texas
Children's Reach, L.L.C.	Pennsylvania

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
Comprehensive Occupational and Clinical Health, Inc.	Delaware
Contemporary Physician Services, Inc.	Texas
Del Amo Hospital, Inc.	California
District Hospital Partners, L.P.	District of Columbia
Doctors' General Hospital, Ltd.	Florida
Doctors' Hospital of Shreveport, Inc.	Louisiana
Eye West Laser Vision, L.P.	Delaware
Forest View Psychiatric Hospital, Inc.	Michigan
Glen Oaks Hospital, Inc.	Texas
Health Care Finance & Construction Corp.	Delaware
HRI Clinics, Inc.	Massachusetts
HRI Hospital, Inc.	Massachusetts
Hope Square Surgical Center, L.P. (d/b/a Surgery Centers of the Desert)	Delaware
Inland Valley Regional Medical Center, Inc.	California
Internal Medicine Associates of Doctors' Hospital, Inc.	Louisiana
La Amistad Residential Treatment Center, Inc.	Florida
Lakeside Women's Center of Oklahoma City, L.L.C.	Oklahoma
Manatee Memorial Hospital, L.P.	Delaware
McAllen Holdings, Inc.	Texas
McAllen Medical Center, Inc.	Texas

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
McAllen Medical Center, L.P. (d/b/a Edinburg Regional Medical Center and McAllen Medical Center)	Delaware
McAllen Medical Center Foundation (Non-Profit)	Texas
McAllen Medical Center Physicians Group, Inc. (Non-profit)	Texas
Meridell Achievement Center, Inc.	Texas
Merion Building Management, Inc.	Delaware
New Albany Outpatient Surgery, L.P. (d/b/a Surgical Center of New Albany)	Delaware
Northern Nevada Medical Center, L.P. (d/b/a Northern Nevada Medical Center)	Delaware
Northwest Texas Healthcare System, Inc.	Texas
The Pavilion Foundation	Illinois
Pueblo Medical Center, Inc.	Nevada
Professional Surgery Corporation of Arkansas	Arkansas
RCW of Edmond, Inc.	Oklahoma
Relational Therapy Clinic, Inc.	Louisiana
Renaissance Women's Center of Austin, L.L.C.	Delaware
Renaissance Women's Center of Edmond, L.L.C.	Oklahoma
Renaissance Women's Center of Enid, L.L.C.	Oklahoma
Renaissance Women's Center of South Oklahoma City, L.L.C.	Oklahoma
River Crest Hospital, Inc.	Texas
River Oaks, Inc.	Louisiana

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
River Parishes Internal Medicine, Inc.	Louisiana
Seacoast Outpatient Surgical Center, Limited Partnership	New Hampshire
SOSC, Inc.	New Hampshire
Sparks Family Hospital, Inc.	Nevada
St. George Surgical Center, L.P. (d/b/a St. George Surgery Center)	Delaware
St. Louis Behavioral Medicine Institute, Inc.	Missouri
Summerlin Hospital Medical Center, LLC	Delaware
Summerlin Hospital Medical Center, L.P.	Delaware
Surgery Center of Corona, L.P. (d/b/a Surgery Center of Corona)	Delaware
Surgery Center of Littleton, L.P. (d/b/a Littleton Day Surgery Center)	Delaware
Surgery Center of Midwest City, L.P. (d/b/a MD Physicians Surgicenter of Midwest City)	Delaware
Surgery Center of Odessa, L.P. (d/b/a Surgery Center of Texas)	Delaware
Surgery Center of Ponca City, L.P. (d/b/a Outpatient Surgical Center of Ponca City)	Delaware
Surgery Center of Springfield, L.P. (d/b/a Surgery Center of Springfield)	Delaware
Surgery Center of Waltham, Limited Partnership (d/b/a Surgery Center of Waltham)	Massachusetts
Tonopah Health Services, Inc.	Nevada

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
Turning Point Care Center, Inc. (d/b/a Turning Point Hospital)	Georgia
Two Rivers Psychiatric Hospital, Inc.	Delaware
UHS of Belmont, Inc.	Delaware
UHS of Bethesda, Inc.	Delaware
UHS of Columbia, Inc.	District of Columbia
UHS Croyden Limited	United Kingdom
UHS of D.C., Inc.	Delaware
UHS of Delaware, Inc.	Delaware
UHS of Fayetteville, Inc.	Arkansas
UHS of Florida, Inc.	Florida
UHS of Fuller, Inc.	Massachusetts
UHS Holding Company, Inc.	Nevada
UHS of Illinois, Inc.	Illinois
UHS International Limited	United Kingdom
UHS Las Vegas Properties, Inc.	Nevada
UHS Leasing Company, Limited	United Kingdom
UHS London Limited	United Kingdom
UHSMS, Inc.	Delaware
UHS of Manatee, Inc.	Florida
UHS of New Orleans, Inc. (d/b/a Chalmette Hospital and River Parishes Hospital)	Louisiana

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
UHS of Odessa, Inc.	Texas
UHS of Pennsylvania, Inc.	Pennsylvania
UHS of Plantation, Inc.	Florida
UHS of Puerto Rico, Inc.	Delaware
UHSR Corporation	Delaware
UHS Receivables Corp.	Delaware
UHS Recovery Foundation, Inc.	Pennsylvania
UHS of River Parishes, Inc.	Louisiana
UHS of Riverton, Inc.	Washington
UHS of Timberlawn, Inc.	Texas
UHS of Vermont, Inc.	Vermont
UHS of Waltham, Inc.	Massachusetts
Universal Health Network, Inc.	Nevada
Universal Health Pennsylvania Properties, Inc.	Pennsylvania
Universal Health Recovery Centers, Inc. (d/b/a UHS KeyStone Center)	Pennsylvania
Universal Health Services of Cedar Hill, Inc.	Texas
Universal Health Services of Concord, Inc.	California
Universal Probation Services, Inc.	Georgia
Universal Treatment Centers, Inc.	Delaware

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
Valley Health System, LLC	Delaware
Valley Hospital Medical Center, Inc.	Nevada
Valley Surgery Center, L.P. (d/b/a Goldring Surgery Center)	Delaware
Victoria Regional Medical Center, Inc.	Texas
Wellington Physician Alliances, Inc.	Florida
Wellington Regional Medical Center Incorporated	Florida
Westlake Medical Center, Inc.	California

EXHIBIT 24

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

/s/ Arthur Andersen LLP
ARTHUR ANDERSEN LLP

Philadelphia, PA
March 25, 1998

5
1,000

12-MOS
DEC-31-1997
JAN-01-1997
DEC-31-1997
332
0
180,252
0
28,214
230,022
991,992
328,881
1,085,349
160,456
272,466
0
0
324
526,283
1,085,349
0
1,442,677
0
1,089,495
119,087
108,790
19,382
105,923
38,647
67,276
0
0
0
67,276
2.08
2.03