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, 1998

OR

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

For the transition period from to

Commission File No. 1-10765

UNIVERSAL HEALTH SERVICES, INC.

(Exact name of registrant as specified in its charter)

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, 1999, was 2,057,928, 29,943,797, 207,230, and 28,708, respectively.

The aggregate market value of voting stock held by non-affiliates at January 31, 1999 was $1,343,163,946. (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 1999 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 1998 (incorporated by reference under Part III).

PART I

ITEM 1. Business

The principal business of Universal Health Services, Inc. (together with its subsidiaries, the "Company") is owning and operating acute care hospitals, behavioral health centers, ambulatory surgery centers, radiation oncology centers and women's centers. Presently, the Company operates 44 hospitals, consisting of 21 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 24 surgery and radiation oncology centers located in 12 states and the District of Columbia.

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

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

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

Recent and Proposed Acquisitions and Development Activities

In 1998, the Company proceeded with its development of new facilities and consummated a number of acquisitions.

In April 1998, the Company officially opened Hospital San Pablo del Este, a 180-bed hospital in Fajardo, Puerto Rico, one of the three hospitals acquired in Puerto Rico by the Company in February 1998.

In October 1998, the Company signed a letter of intent with The Cooper Companies, Inc. for the purchase of three behavioral health facilities: the Hampton Hospital and Hampton Academy in Westhampton, New Jersey, Hartgrove Hospital in Chicago, Illinois, and The Midwest Center for Youth and Families in Kouts, Indiana. This acquisition, subject to regulatory approval, is scheduled to close in the second quarter of 1999.

In November 1998, the Company signed a letter of intent with Columbia/HCA Healthcare Corporation for the purchase of two behavioral health facilities: Riveredge Hospital and Lakeshore Hospital, both located in Chicago, Illinois. This acquisition is scheduled to close in the second quarter of 1999.

Also in November, the Company received favorable regulatory recommendation to construct a 371-bed acute care replacement facility for the current 501-bed George Washington University Hospital in Washington, D.C., in which the Company purchased an 80 percent partnership interest in July 1997. The replacement facility is scheduled to be completed in 2001.

The Company is currently in the process of obtaining the necessary permits and approvals to construct a new medical office building on the campus of Summerlin Hospital Medical Center. Construction, which is expected to start in April 1999 is scheduled to be completed by January 2000, for a total cost of approximately $13 million.

The Company also selectively expanded its operations at certain of its existing facilities. A 40-bed long-term care unit was opened in the newly renovated Universal Pavilion in Edinburg, Texas. The Company acquired land adjacent to Auburn Regional Medical Center in Auburn, Washington for future expansion of the Hospital's surgical capacity. Additional land was also acquired adjacent to Valley Hospital Medical Center in Las Vegas, Nevada for future expansion of its surgical and critical care capacity. A second cardiac catheterization lab and expanded outpatient surgery facilities were opened at Aiken Regional Medical Center in Aiken, South Carolina. Summerlin Hospital Medical Center in Las Vegas, Nevada opened a cardiac catheterization/angiography lab and expanded surgical facilities. The Company acquired land adjacent to Desert Springs hospital in Las Vegas, Nevada for future bed expansion. A newly renovated emergency room and patient wing were opened at Hospital San Pablo in Puerto Rico. Chalmette Medical Center in Chalmette, Louisiana opened a new 20-bed patient wing, Two Rivers Psychiatric Hospital in Kansas City, Missouri opened a neuro-psychiatric program, and Edinburg Regional Medical Center in Edinburg, Texas, opened a new 20-bed psychiatric unit.

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.

	1998	1997	1996	1995	1994
Average Licensed Beds:					
Acute Care Hospitals....	4,696	3,389	3,018	2,638	2,398
Behavioral Health Centers................	1,782	1,777	1,565	1,238	1,145
Average Available Beds(1):					
Acute Care Hospitals....	3,985	2,951	2,641	2,340	2,099
Behavioral Health Centers................	1,767	1,762	1,540	1,223	1,142
Admissions:					
Acute Care Hospitals....	187,833	128,020	111,244	91,298	75,923
Behavioral Health Centers................	32,400	28,350	22,295	15,329	13,033
Average Length of Stay (Days):					
Acute Care Hospitals....	4.7	4.8	4.9	5.1	5.2
Behavioral Health Centers................	11.3	11.9	12.4	12.8	13.8
Patient Days(2):					
Acute Care Hospitals....	884,966	616,965	546,237	462,054	394,490
Behavioral Health Centers................	365,935	336,850	275,667	195,961	179,821
Occupancy Rate--Licensed Beds(3):					
Acute Care Hospitals....	52%	50%	49%	48%	45%
Behavioral Health Centers................	56%	52%	48%	43%	43%
Occupancy Rate--Available Beds(3):					
Acute Care Hospitals....	61%	57%	57%	54%	51%
Behavioral Health Centers................	57%	52%	49%	44%	43%

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

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

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

The number of patient days of a hospital is affected by a number of factors, including the number of physicians using the hospital, changes in the number of beds, the composition and size of the population of the community in which the hospital is located, general and local economic conditions, variations in local medical and surgical practices and the degree of outpatient use of the hospital services. Current industry trends in utilization and occupancy have been significantly affected by changes in reimbursement policies of third party payors. A continuation of such industry trends could have a material adverse impact upon the Company's future operating performance. The Company has experienced growth in outpatient utilization over the past several years. The Company is unable to predict the rate of growth and resulting impact on the Company's future revenues because it is dependent upon developments in medical technologies and physician practice patterns, both of which are outside of the Company's control. The Company is also unable to predict the extent to which other industry trends will continue or accelerate.

Sources of Revenue

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

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

McAllen Medical Center located in McAllen, Texas and Edinburg Regional Medical Center located in Edinburg, Texas operate within the same market. On a combined basis, these two facilities contributed 13% in 1998, 16% in 1997 and 19% in 1996 of the Company's consolidated net revenues and 23% in 1998, 25% in 1997 and 32% in 1996 of the Company's consolidated earnings before depreciation, amortization, interest, income taxes and nonrecurring charges (after deducting an allocation of corporate overhead) ("EBITDA"). During the first quarter of 1998, the Company contributed substantially all of the assets, liabilities and operations of Valley Hospital Medical Center and its newly-constructed Summerlin Hospital Medical Center in exchange for a 72.5% interest in a series of newly-formed limited liability corporations ("LLCs"). Quorum Health Group, Inc. ("Quorum") holds the remaining 27.5% interest in the LLCs. Quorum obtained its interest by contributing substantially all of the assets, liabilities and operations of Desert Springs Hospital and $11 million of net cash to the LLCs. All three acute care facilities, operate within the Las Vegas, Nevada market. On a combined basis, these three facilities contributed 18% of the Company's consolidated net revenues and 15% of the Company's consolidated EBITDA during 1998. During 1997 and 1996, Valley Hospital Medical Center and Summerlin Hospital Medical Center (which opened during the fourth quarter of 1997) contributed 13% in 1997 and 13% in 1996 of the Company's consolidated net revenues and 18% in 1997 and 17% in 1996 of the Company's consolidated EBITDA.

The following table shows approximate percentages of net patient revenue derived by the Company's hospitals owned as of December 31, 1998 since their respective dates of acquisition by the Company from third party sources, including the additional Medicaid reimbursements received at three of the Company's acute care facilities located in Texas and one in South Carolina totaling $36.5 million in 1998, $33.4 million in 1997, $17.8 million in 1996, $12.6 million in 1995 and $12.7 million in 1994, and from all other sources during the five years ended December 31, 1998.

	PERCENTAGE OF NET PATIENT REVENUES				
	1998	1997	1996	1995	1994
Third Party Payors:					
Medicare	34.3%	35.6%	35.6%	35.1%	32.5%
Medicaid	11.3%	14.5%	15.3%	13.7%	13.4%
TOTAL	45.6%	50.1%	50.9%	48.8%	45.9%
Other Sources (including patients and private insurance carriers)	54.4%	49.9%	49.1%	51.2%	54.1%
	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.

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

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

The regulations provide for the use of a 10-year transition period in which a blend of the old and new capital payment provisions will be utilized. One of two methodologies will apply during the 10-year transition period: if the hospital's hospital-specific capital rate exceeds the federal capital rate, the hospital will be paid on the basis of a "hold harmless" methodology, which is a blend of a portion of old capital and an amount of new capital and a prospectively determined national federal capital rate; or, with limited exceptions, if the hospital-specific rate is below the federal capital rate, the hospital will receive payments based upon a "fully prospective" methodology, which is a blend of the hospital's hospital-specific capital rate and a prospectively determined national federal capital rate. Each hospital's hospital-specific rate was determined based upon allowable capital costs incurred during the "base year", which, for most of the Company's hospitals, is the year ended December 31, 1990. Most of the Company's hospitals are paid under the "'hold harmless" methodology except for five hospitals, which are 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 July 31, 1998. In fiscal 1999, hospitals receive an inpatient PPS inflation update factor of market-basket minus 1.9 percent, as mandated by Congress in the Balanced Budget Act.

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

In addition to 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 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. It is likely that future budgets will contain certain further reductions in the rate of increase of Medicare and Medicaid spending, as evidenced by the Clinton Administration's proposed fiscal year 2000 budget which includes a proposal to freeze Medicare hospital payment rates.

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

In 1991, the Texas legislature authorized the LoneSTAR Health Initiative, a pilot program in two areas of the state, to establish for Medicaid beneficiaries a health care delivery system based on managed care principles. The program is now known as the STAR Program, which is short for State of Texas Access Reform. Since 1995, the Texas Health and Human Services Commission, with the help of other Texas agencies such as the Texas Department of Health, has been rolling out STAR Medicaid managed care pilot programs in various geographic areas of the state. Under the STAR program, the Texas Department of Health either contracts with health maintenance organizations in each area to arrange for covered services to Medicaid beneficiaries, or contracts directly with health care providers and oversees the furnishing of care in the role of the case manager. Texas has implemented STAR + PLUS in Harris County, which includes the provision of long term care to elderly and disabled Medicaid beneficiaries. Texas also plans to implement another unique pilot program known as NorthSTAR in the Dallas County area in July 1999. NorthSTAR is a behavioral health carve-out managed care program. Texas plans to continue implementing Medicaid managed care pilot programs over the next three years or so until it achieves statewide coverage. The Company is unable to predict the effect on the Company's business of such pilot programs.

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 $36.5 million in 1998, $33.4 million in 1997, and $17.8 million in 1996, received pursuant to the terms of these programs. These programs are scheduled to terminate in the third quarter of 1999, and, although these programs have been renewed annually in the past, the Company cannot predict whether these programs will continue beyond their scheduled termination date. However, failure to renew these programs at their current reimbursement levels, or further changes in the Medicare and Medicaid programs, could have a material adverse effect on the Company's future operating results.

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. Penalties for violating Stark I and Stark II include denial of payment for any services rendered by an entity in violation of the prohibitions, civil money penalties of up to $15,000 for each offense, and exclusion from the Medicare and Medicaid programs.

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

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

Congress made significant changes to various health care fraud provisions in the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"). HIPAA called upon the Secretary of HHS to establish a program aimed at controlling fraud and abuse. HIPAA also expanded the criminal laws and sanctions to strengthen the enforcement capabilities of the government in attempting to prevent fraus and abuse. HIPAA in addition created a federal crime of health care fraud, which applies to anyone who defrauds any health care benefit program, including any public or private plan or contract, under which any medical benefit, item or service is provided to any individual. The Company does not anticipate that the fraud provisions enacted under HIPAA will have a material effect on its operation.

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

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

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

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

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

The Company's healthcare operations generate medical waste that must be disposed of in compliance with federal, state and local environmental laws, rules and regulations. In 1988, Congress passed the Medical Waste Tracking Act. Infectious waste generators, including hospitals, now face substantial penalties for improper arrangements regarding disposal of medical waste, including civil penalties of up to $25,000 per day of noncompliance, criminal penalties of $150,000 per day, imprisonment, and remedial costs. The comprehensive legislation establishes programs for medical waste treatment and disposal in designated states. The legislation also provides for sweeping inspection authority in the Environmental Protection Agency, including monitoring and testing. The Company believes that its disposal of such wastes is in compliance with all state and federal laws.

Medical Staff and Employees

The Company's hospitals are staffed by licensed physicians who have been admitted to the medical staff of individual hospitals. With a few exceptions, physicians are not employees of the Company's hospitals and members of the medical staffs of the Company's hospitals also serve on the medical staffs of hospitals not owned by the Company and may terminate their affiliation with the Company's hospitals at any time. Each of the Company's hospitals is managed on a day-to-day basis by a managing director employed by the Company. In addition, a Board of Governors, including members of the hospital's medical staff, governs the medical, professional and ethical practices at each hospital. The Company's facilities had approximately 19,200 employees at December 31, 1998, of whom 14,639 were employed full-time.

Approximately Eight Hundred Fifty (850) of the Company's employees at six of its hospitals are unionized. At Valley Hospital, unionized employees belong to the Culinary Workers and Bartenders Union 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. At The George Washington University Hospital, unionized employees are represented by the Service Employees International Union and the Hospital Police Association. Nurses at Desert Springs Hospital are represented by the Service Employees International Union. The registered nurses, licensed practical nurses, certain technicians and therapists, and housekeeping employees at HRI Hospital in Boston are represented by the Service Employees International Union. Unionized employees at Hospital San Fransisco in Puerto Rico are represented by the Labor Union of Nurses and Health Employees. The Company believes that its relations with its employees are satisfactory.

Competition

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

Liability Insurance

Effective January 1, 1998, the Company 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.

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 with terms expiring in 2000 through 2006. These leases contain up to six 5-year renewal options. During 1998, the Company exercised five-year renewal options on four hospitals leased from the Trust which were scheduled to expire in 1999 through 2001. The leases on these facilities were renewed at the same lease rates and terms as the initial leases. 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, 1999, 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 (61)	Director, Chairman of the Board, President and Chief Executive Officer
Kirk E. Gorman (48)	Senior Vice President and Chief Financial Officer
Michael G. Servais (52)	Senior Vice President
Richard C. Wright (51)	Vice President
Thomas J. Bender (46)	Vice President
Steve G. Filton (41)	Vice President and Controller
Sidney Miller (72)	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	233	Owned
Doctors' Hospital of Shreveport(3)	Shreveport, Louisiana	136	Leased
Edinburg Regional Medical Center	Edinburg, Texas	169	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	152	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	70	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
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

Behavioral Health Centers, continued

Name of Facility	Location	Number of Beds	Ownership Interest
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
Northwest Texas Surgery Center	Amarillo, Texas
Outpatient Surgical Center of Ponca City	Ponca City, Oklahoma
Plaza Surgery Center	Las Vegas, Nevada
St. George Surgical Center	St. George, Utah
Hope Square Surgery Center	Rancho Mirage, California
Surgery Center of Littleton	Littleton, Colorado
Surgery Center of Midwest City	Midwest City, Oklahoma
Surgery Center of Springfield	Springfield, Missouri
Surgical Center of New Albany	New Albany, Indiana

Radiation Oncology Centers

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

Specialized Women's Health Centers

Name of Facility	Location
Renaissance Women's Center of Edmond(10)	Edmond, Oklahoma
Renaissance Women's Center of Austin(10)	Austin, Texas
Lakeside Women's Center(10)	Oklahoma City, Oklahoma

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

(5) Includes Chalmette 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 and Northwest Texas Surgery Center, is owned in partnership form with the Company owning general and limited partnership interests in a limited partnership. The real property is leased from third parties.
(8) Majority interest in a limited liability partnership.
(9) Managed facility, not included in the Company's consolidated financial statements. A partnership, in which the Company is the general partner, owns the real property.
(10) Membership interest in limited liability company.
(11) Managed facility, not included in the Company's consolidated financial statements. A limited liability company, in which the Company is the sole member, owns the equipment, but the property is leased.

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

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

The aggregate lease payments on facilities leased by the Company aggregated $22.8 million in 1998.

ITEM 3. Legal Proceedings

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

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, 1998 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				
	1998	1997	1996	1995	1994
Summary of Operations (in thousands)					
Net revenues..........	$ 1,874,487	$ 1,442,677	$ 1,174,158	$ 919,193	$ 773,475
Net income............	$ 79,558	$ 67,276	$ 50,671	$ 35,484	$ 28,720
Net margin............	4.2%	4.7%	4.3%	3.9%	3.7%
Return on average equity...............	13.1%	13.5%	13.0%	12.4%	11.8%
Financial Data (in thousands)					
Cash provided by operating activities..	$ 151,684	$ 174,170	$ 145,991	$ 91,749	$ 60,624
Capital expenditures(1).......	$ 96,808	$ 132,258	$ 107,630	$ 65,695	$ 48,652
Total assets..........	$ 1,448,095	$ 1,085,349	$ 965,795	$ 748,051	$ 521,492
Long-term borrowings...	$ 418,188	$ 272,466	$ 275,634	$ 237,086	$ 85,125
Common stockholders' equity................	$ 627,007	$ 526,607	$ 452,980	$ 297,700	$ 260,629
Percentage of total debt to total capitalization........	40%	35%	38%	45%	26%
Operating Data--Acute Care Hospitals					
Average licensed beds..	4,696	3,389	3,018	2,638	2,398
Average available beds..................	3,985	2,951	2,641	2,340	2,099
Hospital admissions....	187,833	128,020	111,244	91,298	75,923
Average length of patient stay..........	4.7	4.8	4.9	5.1	5.2
Patient days..........	884,966	616,965	546,237	462,054	394,490
Occupancy rate for licensed beds.........	52%	50%	49%	48%	45%
Occupancy rate for available beds........	61%	57%	57%	54%	51%
Operating Data--Behavioral Health Facilities					
Average licensed beds..	1,782	1,777	1,565	1,238	1,145
Average available beds..................	1,767	1,762	1,540	1,223	1,142
Hospital admissions....	32,400	28,350	22,295	15,329	13,033
Average length of patient stay..........	11.3	11.9	12.4	12.8	13.8
Patient days..........	365,935	336,850	275,667	195,961	179,821
Occupancy rate for licensed beds.........	56%	52%	48%	43%	43%
Occupancy rate for available beds........	57%	52%	49%	44%	43%
Per Share Data					
Net income--basic(2)...	$ 2.45	$ 2.08	$ 1.69	$ 1.28	$ 1.03
Net income--diluted(2)...........	$ 2.39	$ 2.03	$ 1.65	$ 1.26	$ 1.01
Other Information (in thousands)					
Weighted average number of shares outstanding--basic(2).............	32,511	32,321	30,054	27,691	27,972
Weighted average number of shares and share equivalents outstanding--diluted(2)...........	33,293	33,098	30,798	28,103	28,775
Common Stock Performance					
Market price of common stock					
High-Low, by quarter(3)					

1st....................	58 1/8 -47 1/16	34 5/8 -27 7/8	26 7/8-21 11/16	13 -11 3/8	13 5/16- 9 5/8
2nd....................	59 5/8 -53	40 1/2 -31 5/8	30 1/8-24 3/8	14 13/16-12 7/16	13 7/16-11 1/4
3rd....................	58 1/2 -38 3/4	47 1/16-39 1/16	27 1/4-22 3/4	17 11/16-14	14 3/4 -12 15/16
4th....................	54 5/16-40 7/16	50 3/8 -40 11/16	29 1/4-24 1/2	22 3/16 -16 1/8	14 1/16-10 11/16

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

(2) In April 1996, the Company declared a two-for-one stock split in the form of a 100% stock dividend which was paid in May 1996. All classes of common stock participated on a pro rata basis. The weighted average number of common shares and equivalents and earnings per common and common equivalent share for all years presented have been adjusted to reflect the two-for-one stock split. The 1994 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 York 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, 1999, were as follows:

Class A Common	9
Class B Common	579
Class C Common	7
Class D Common	250

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

Forward-Looking Statements

The matters discussed in this report as well as the news releases issued from time to time by the Company include certain statements containing the words "believes", "anticipates", "intends", "expects" and words of similar import, which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance 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 payers; industry capacity; demographic changes; existing laws and government regulations and changes in or failure to comply with laws and governmental regulations; the ability to enter into managed care provider agreements on acceptable terms; liability and other claims asserted against the Company; competition; the loss of significant customers; technological and pharmaceutical improvements that increase the cost of providing, or reduce the demand for healthcare; the ability to attract and retain qualified personnel, including physicians, the ability of the Company to successfully integrate its recent acquisitions; the Company's ability to finance growth on favorable terms; the impact of Year 2000 issues; and, other factors referenced in the Company's 1998 Form 10-K or herein. Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

Results of Operations

Net revenues increased 30% to $1.9 billion in 1998 as compared to 1997 and 23% to $1.4 billion in 1997 as compared to 1996. The $432 million increase in net revenues during 1998 as compared to 1997 was due primarily to: (i) the acquisition of three acute care facilities located in Puerto Rico (one of which opened in April, 1998) and one acute care facility located in Las Vegas which were acquired during the first quarter of 1998, the acquisition of an 80% interest in a 501-bed acute care facility during the third quarter of 1997 and a newly constructed 148-bed acute care facility which opened during the fourth quarter of 1997 ($344 million), and; (ii) revenue growth at facilities owned during both periods ($58 million). 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).

Earnings before interest, income taxes, depreciation, amortization, lease and rental expense and $4.1 million of nonrecurring transactions recorded in 1996 (see Other Operating Results) (before deducting minority interests in earnings of consolidated entities) ("EBITDAR") increased to $311 million in 1998 from $245 million in 1997 and $214 million in 1996. Overall operating margins were 16.6% in 1998, 17.0% in 1997 and 18.2% in 1996. The decrease in the Company's overall operating margin in 1998 as compared to 1997 was due primarily to: (i) lower operating margins experienced at three acute care hospitals located in Puerto Rico (one of which opened in April 1998) and one acute care hospital located in Las Vegas, Nevada which were acquired during the first quarter of 1998; (ii) lower operating margins experienced at the 501-bed acute care facility of which the Company acquired an 80% interest in during the third quarter of 1997; (iii) 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, and; (iv) $2.5 million of pre-tax adverse financial effects of Hurricane Georges which damaged property and curtailed business at three hospitals in Puerto Rico and four hospitals in Louisiana during the third quarter of 1998. The $2.5 million adverse pre-tax financial effects resulting from the hurricane were comprised of $1.7 million of estimated lost revenue due to partial evacuation of seven facilities and $800,000 of net operating costs (after insurance recoveries) consisting primarily of storm preparations, supply expenses and temporary help. 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 and the opening of a newly constructed 129-bed acute care facility during the third quarter of 1997 and a 148-bed acute care facility during the fourth quarter of 1997.

Acute Care Services

Net revenues from the Company's acute care hospitals, ambulatory treatment centers and specialized women's health centers accounted for 87%, 85% and 85% of consolidated net revenues in 1998, 1997 and 1996, respectively. Net revenues at the Company's acute care facilities owned in both 1998 and 1997 increased 4% in 1998 as compared to 1997 due primarily to a 4% increase in admissions and a 1% increase in patient days. The average length of stay at these facilities decreased 3% to 4.7 days in 1998 as compared to 4.8 days in 1997. 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.

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 shorter 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 1998 and 1997 increased 14% in 1998 as compared to 1997 and comprised 27% of the Company's acute care gross patient revenue in 1998 as compared to 26% in 1997. 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 gross patient revenues in 1997 as compared to 25% in 1996.

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, managed care companies and other 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. The Company's ability to maintain its historical rate of net revenue growth and operating margins is dependent upon its ability to successfully respond to these trends as well as reductions in spending on governmental health care programs.

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, 1998, the Company operated or managed twenty-seven outpatient surgery, radiation and specialized women's health centers which generated net revenues of $56 million in 1998, $38 million in 1997 and $32 million in 1996. The Company expects the growth in outpatient services to continue due to increased focus on managed care and advances in technology.

At the Company's acute care facilities, operating expenses (operating expenses, salaries and wages and provision for doubtful accounts) as a percentage of net revenues were 79.9% in 1998, 78.7% in 1997 and 77.2% in 1996. Operating margins (EBITDAR) at these facilities were 20.1% in 1998, 21.3% in 1997 and 22.8% in 1996. The decrease in the operating margins over the last three years was due primarily to: (i) lower operating margins experienced at three acute care hospitals located in Puerto Rico (one of which opened in April 1998) and one acute care hospital located in Las Vegas, Nevada which were acquired during the first quarter of 1998; (ii) lower operating margins experienced at the 501-bed acute care facility of which the Company acquired an 80% interest in during the third quarter of 1997; (iii) 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; (iv) changes in Medicare payments mandated by the Balanced Budget Act of 1997 which became effective October 1, 1997, and; (v) $2.5 million of pre-tax adverse financial effects of Hurricane Georges ($2.3 million of which affected acute care facilities) which damaged property and curtailed business at three acute care hospitals in Puerto Rico and four hospitals in Louisiana (three of which were acute care facilities) during the third quarter of 1998.

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. Providers participating in managed care programs agree to provide services to patients for a discount from established rates which generally results in pricing concessions by the providers and lower margins. Additionally, managed care companies generally encourage alternatives to inpatient treatment settings and reduce utilization of inpatient services. 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. 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. On a same facility basis, operating expenses (operating expenses, salaries and wages and provision for doubtful accounts) at the Company's facilities owned in both 1998 and 1997 were 77.4% of net revenues in 1998 as compared to 78.5% in 1997. Operating margins at the Company's acute care facilities owned in both 1998 and 1997 were 22.6% in 1998 as compared to 21.5% in 1997. Operating expenses at the Company's facilities owned in both 1997 and 1996 were 77.0% in 1997 as compared to 77.2% in 1996. Operating margins at the Company's facilities owned in both 1997 and 1996 were 23.0% in 1997 and 22.8% in 1996. Pressure on operating margins is expected to continue due to, among other things, the changes in Medicare payments mandated by the Balanced Budget Act of 1997 which became effective October 1, 1997 and the industry-wide trend towards managed care which limits the Company's ability to increase its prices.

Behavioral Health Services

Net revenues from the Company's behavioral health services facilities accounted for 12%, 14% and 14% of consolidated net revenues in 1998, 1997 and 1996, respectively. Net revenues at the Company's behavioral health services facilities owned in both 1998 and 1997 increased 7% in 1998 as compared to 1997 due to a 14% increase in admissions and a 9% increase in patient days. The average length of stay at these facilities decreased 5% to 11.3 days in 1998 as compared to 11.9 days in 1997. Net revenues at the Company's behavioral health services 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 services 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.

The reduction in the average length of stay during the last three years is a result of continued practice changes in the delivery of behavioral health services and continued cost containment pressures from payors, including managed care companies, which includes a greater emphasis on the utilization of outpatient services. Providers participating in managed care programs agree to provide services to patients for a discount from established rates which generally results in pricing concessions by the providers and lower margins. Additionally, managed care companies generally encourage alternatives to inpatient treatment. 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 1998 and 1997 increased 12% in 1998 as compared to 1997 and comprised 20% of gross patient revenues in both years. 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.

Operating expenses (operating expenses, salaries and wages and provision for doubtful accounts) as a percentage of net revenues at the Company's behavioral health services facilities were 83.5% in 1998, 82.8% in 1997 and 82.0% in 1996. The Company's behavioral health services division generated operating margins (EBITDAR) of 16.5% in 1998, 17.2% in 1997 and 18.0% in 1996. On a same facility basis, operating expenses (operating expenses, salaries and wages and provision for doubtful accounts) at the Company's behavioral health services facilities owned in both 1998 and 1997 were 82.4% in 1998 and 82.2% in 1997. Operating margins (EBITDAR) at the Company's behavioral health services facilities owned in both 1998 and 1997 were 17.6% in 1998 and 17.8% in 1997. Operating expenses at the Company's behavioral health services facilities owned in both 1997 and 1996 were 81.1% in 1997 and 80.7% in 1996. Operating margins (EBITDAR) at the facilities owned in both 1997 and 1996 were 18.9% in 1997 and 19.3% in 1996. The decline in operating margins during the last three years was caused primarily by the continued reduction in length of stay and pricing pressures caused by the increasing shift toward managed care. Management continues to implement cost controls in response to the managed care environment, however, pressure on operating margins is expected to continue in the future.

Other Operating Results

Depreciation and amortization expense increased $24 million to $105 million in 1998 as compared to $81 million in 1997. The increase was due primarily to the four acute care hospitals acquired/opened during the first four months of 1998 (three in Puerto Rico and one in Las Vegas) and a full year of depreciation expense on two acute care facilities opened during the third and fourth quarters of 1997. Depreciation and amortization expense increased $9 million to $81 million in 1997 as compared to $72 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.

Interest expense increased $8 million to $27 million in 1998 as compared to $19 million in 1997 due primarily to increased borrowings used to finance the 1998 purchase of the three acute care hospitals located in Puerto Rico. Interest expense decreased $2 million to $19 million in 1997 as compared to $21 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 of a new acute care facility in Washington, DC.

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 (which was divested during the first quarter of 1997) 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.

The effective tax rate was 35.3%, 36.5% and 36.7% in 1998, 1997 and 1996, respectively. The reduction in the effective tax rate during 1998 as compared to the prior years was due to a reduction in the effective state income tax rate and benefits related to wage tax credits.

General Trends

A significant portion of the Company's revenue is derived from fixed payment services, including Medicare and Medicaid, which accounted for 46%, 50% and 51% of the Company's net patient revenues during 1998, 1997 and 1996, 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 were no increases in the rates paid to hospitals for inpatient care through September 30, 1998. The Company expects that the modest rate increases which became effective on October 1, 1998 will be more than offset by the negative impact of converting reimbursement on skilled nursing facility patients from a cost based reimbursement to a prospective payment system and from lower DRG payments on certain patient transfers mandated by the 1997 Act. Reimbursement for bad debt expense and capital costs as well as other items have been reduced. Outpatient reimbursement for Medicare patients is scheduled to convert to a PPS during the second quarter of 2000. Since final provisions of the outpatient Medicare PPS are not yet available, the Company can not completely estimate the resulting impact on its future results of operations.

During the first quarter of 1999, the President submitted a proposal which included additional reductions in Medicare payments to hospitals, nursing homes and other providers amounting to $9.5 billion over a five year period. Approximately $4.5 billion of the proposed Medicare reductions would cut the growth of Medicare payments to hospitals over a five year period. While the Company is unable to predict whether this most recent proposal, or any other future health reform legislation, will ultimately 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.

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

In Texas, a law has been passed which mandates that the state senate apply for a waiver from current Medicaid regulations to allow the state to require that certain Medicaid participants be serviced through managed care providers. The Company is unable to predict whether Texas will be granted such a waiver or the effect on the Company's business of such a waiver. Upon meeting certain conditions, and serving a disproportionately high share of Texas' and South Carolina's low income patients, 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 $36.5 million in 1998, $33.4 million in 1997 and $17.8 million in 1996 received pursuant to the terms of these programs. These programs are scheduled to terminate in the third quarter of 1999 and although these programs have been renewed annually in the past, the Company cannot predict whether these programs will continue beyond their scheduled termination date. However, failure to renew these programs at their current reimbursement levels could have a material adverse effect on the Company's future results of operations.

In addition to the Medicare and Medicaid programs, other payors, including managed care companies, 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 health maintenance organizations and preferred provider organizations 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.

Year 2000 Issue

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. The Company's computer programs, certain building infrastructure components (including elevators, alarm systems and certain HVAC systems) and certain computer aided medical equipment that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruption of operations or medical equipment malfunctions that could affect patient diagnosis and treatment.

The Company has undertaken steps to inventory and assess applications and equipment at risk to be affected by Year 2000 issues and to convert, remediate or replace such applications and equipment. The Company has completed its assessment of its major financial and clinical software and believes that such software is substantially Year 2000 compliant. As to certain peripheral software, the Company has scheduled upgrades to be completed by June, 1999. For its biomedical equipment, the Company expects to complete the assessment phase of its Year 2000 analysis by early in the second quarter of 1999. The Company believes that Year 2000 related remediation costs incurred through December 31, 1998 have not had a material impact on its results of operations. However, the Company is not able to reasonably estimate the total capital costs to be incurred for equipment replacement since the equipment analysis phase has not yet been completed. Some replacement or upgrade of systems and equipment would take place in the normal course of business. Several systems, key to the Company's operations, have been scheduled to be replaced through vendor supplied systems before Year 2000. The costs of repairing existing systems is expensed as incurred. The Company has allocated a portion of its 1999 capital budget as Year 2000 contingency funds and expects that all of the capital costs can be accommodated within that budget. The Company presently believes that with modifications to existing software and conversions to new software, the Year 2000 issue will not pose material operational problems for its computer systems. However, if such modifications and conversions are not made, or are not completed timely, the Year 2000 issue could have a material impact on the operations of the Company.

The majority of the software used by the Company is purchased from third parties. The Company is relying on software (including the Company's major outsourcing vendor which provides the financial and clinical applications for the majority of the Company's acute care facilities), hardware and other equipment vendors to verify Year 2000 compliance of their products. The Company also depends on: fiscal intermediaries which process claims and make payments for the Medicare program; health maintenance organizations, insurance companies and other private payors; vendors of medical supplies and pharmaceuticals used in patient care; and, providers of utilities such as electricity, water, natural gas and telephone services. As part of its Year 2000 strategy, the Company intends to seek assurances from these parties that their services and products will not be interrupted or malfunction due to the Year 2000 problem. Failure of third parties to resolve their Year 2000 issues could have a material adverse effect on the Company's results of operations and its ability to provide health care services.

Each of the Company's hospitals has a disaster plan which will be reviewed as part of the Company's Year 2000 contingency planning process. However, no assurance can be given that the Company will be able to develop contingency plans which will enable each of its facilities to continue to operate in all circumstances.

This Year 2000 assessment is based on information currently available to the Company and the Company will revise its assessment at it implements its Year 2000 strategy. The Company can provide no assurance that applications and equipment the Company believes to be Year 2000 compliant will not experience difficulties or that the Company will not experience difficulties obtaining resources needed to make modifications to or replace the Company's affected systems and equipment. Failure by the Company or third parties on which it relies to resolve Year 2000 issues could have a material adverse effect on the Company's results of operations and its ability to provide health care services. Consequently, the Company can give no assurances that issues related to Year 2000 will not have a material adverse effect on the Company's financial condition or results of operations.

Market Risks Associated With Financial Instruments

The Company's interest expense is sensitive to changes in the general level of domestic interest rates. To mitigate the impact of fluctuations in domestic interest rates, a portion of the Company's debt is fixed rate accomplished by either borrowing on a long-term basis at fixed rates or by entering into interest rate swap transactions. The interest rate swap agreements are contracts that require the Company to pay a fixed and receive a floating interest rate over the life of the agreements. The floating-rates are based on LIBOR and the fixed-rate is determined at the time the swap agreement was consummated. The interest rate swap agreements do not constitute positions independent of the underlying exposures. The Company does not hold or issue derivative instruments for trading purposes and is not a party to any instruments with leverage features. Certain swap agreements allow the counterparty a one-time option to cancel the agreement one year prior to maturity. The Company is exposed to credit losses in the event of nonperformance by the counterparties to its financial instruments. The counterparties are creditworthy financial institutions, rated AA or better by Moody's Investor Services and the Company anticipates that the counterparties will be able to fully satisfy their obligations under the contracts. For the year ended December 31, 1998, the Company received a weighted average rate of 5.7% and paid a weighted average rate on its interest rate swap agreements of 5.8%. At December 31, 1997 and December 31, 1996, the Company had no active interest rate swap agreements.

The table below presents information about the Company's derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including long-term debt and interest rate swaps as of December 31, 1998. For debt obligations, the table presents principal cash flows and related weighted-average interest rates by contractual maturity dates. For interest rate swap agreements, the table presents notional amounts by expected maturity date (assuming the options to cancel early are not exercised) and weighted average interest rates based on rates in effect at December 31, 1998. The fair values of long-term debt and interest rate swaps were determined based on market prices quoted at December 31, 1998, for the same or similar debt issues.

	Maturity Date, Fiscal Year Ending December 31						
	1999	2000	2001	2002	2003	There-after	Total
	(Dollars in thousands)						
Long-term debt:							
Fixed rate-Fair value................	$4,082	$3,438	$ 286	$ 1,381	$0	$141,021	$150,208
Fixed rate-Carrying value................	4,082	3,438	286	1,256	0	134,268	143,330
Average interest rates..	7.19%	7.38%	8.60%	10.00%		9.20%	
Variable rate long-term debt..................	0	0	0	260,740	0	18,200	278,940
Interest rate swaps:							
Pay fixed/receive variable notional amounts.............			50,000			75,000	125,000
Average pay rate......			5.784%			6.75%	
Average receive rate..			3 month LIBOR			6 month LIBOR	

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 were no increases in the rates paid to hospitals for inpatient care through September 30, 1998. The Company expects that the modest rate increases which became effective on October 1, 1998 will be more than offset by the negative impact of converting reimbursement on skilled nursing facility patients from a cost based reimbursement to a prospective payment system and from lower DRG payments on certain patient transfers mandated by the 1997 Act. Reimbursement for bad debt expense and capital costs as well as other items have been reduced. In addition, as a result of increasing regulatory and competitive pressures and a continuing industry wide shift of patient into managed care plans, 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 $152 million in 1998, $174 million in 1997 and $146 million in 1996. The $22 million net decrease in 1998 as compared to 1997 was primarily attributable to: (i) a $37 million favorable increase in net income plus the addback of depreciation and amortization expense; (ii) an unfavorable $18 million increase in income tax payments, net of refunds; (iii) an unfavorable $14 million change in accrued insurance expense less commercial premiums paid and payments made in settlement of self-insurance claims; (iv) an unfavorable $22 million increase in other working capital accounts; (v) an $8 million increase in payments made to the Company's non-contributory retirement plan, and; (vi) $3 million of other net favorable changes. The unfavorable change in accrued insurance less commercial premiums paid and payments made in settlement of self-insurance claims was due to the January, 1998 purchase of commercial insurance policies for general and professional liability coverage at most of the Company's subsidiaries. These policies provide for coverage in excess of $1 million per occurrence, with an average annual aggregate of $4 million through 2001. Prior to January 1998, 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. Other working capital accounts as of December 31, 1998 (net of effects from acquisitions) increased $9 million as compared to December 31, 1997 while other working capital accounts as of December 31, 1997 decreased $13 million as compared to December 31, 1996. The changes in other working capital accounts were caused primarily by the timing of payments of accounts payable and other accrued expenses.

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. 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 $187 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 $11 million of net cash. The assets and liabilities contributed by the Company were recorded by the LLCs at carryover value. The LLCs applied purchase accounting to the assets and liabilities provided by Quorum and recorded them at fair market value. As a result of this partial sale transaction, the Company recorded a pre-tax gain of $55.1 million ($34.7 million after-tax) that was recorded as a capital contribution to the Company. This merger did not have a material impact on the 1998 results of operations. Also during 1998, the Company spent $2 million to purchase the property of a radiation therapy center located in California.

During the third quarter of 1998, the Company's Board of Directors approved a stock repurchase program under which the Company is authorized to purchase up to two million shares or approximately 6% of its outstanding Class B Common Stock. As of December 31, 1998, the Company repurchased 580,500 shares at an average repurchase price of $42.90 per share ($24.9 million in the aggregate) pursuant to this program.

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 (balance of $43.4 million as of December 31, 1998) and a $40 million letter of credit. The Company and GWU are planning to build a newly constructed 371-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. In connection with the acquisition of the 357 bed medical complex located in Amarillo, Texas, the Company is also 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 and 1998, which totaled approximately $600,000, was accounted for as an increase to the previously recorded excess of cost over face value of net assets acquired when determined in accordance with paragraph 79 of APB No. 16. 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.

Capital expenditures, net of proceeds received from sale or disposition of assets, were $91 million in 1998 (excluding $11 million of net cash contributed by Quorum as mentioned above), $114 million in 1997 (including $71 million spent on the newly constructed facilities mentioned above) and $106 million in 1996 (including $53 million spent on the newly constructed facilities mentioned above). Capital expenditures for capital equipment, renovations and new projects at existing hospitals and completion of major construction projects in progress at December 31, 1998 are expected to total approximately $125 million in 1999. 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 40% at December 31, 1998, 35% at December 31, 1997 and 38% at December 31, 1996. The increase during 1998 was due primarily to the 1998 purchase transactions mentioned above, which were financed with borrowings under the Company's revolving credit facility. To partially finance the 1996 purchase transactions mentioned above, the Company issued four million shares of its Class B Common Stock at a price of $26 per share during the second quarter of 1996. 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 1998, the Company amended its revolving credit agreement to increase the borrowing capacity to $400 million from $300 million. The agreement includes a $50 million sublimit for letters of credit. Also during 1998, the banks participating in the Company's revolving credit agreement agreed to fully discharge the obligation of the Company's subsidiaries to guarantee the parent company's obligations under the revolving credit agreement. The agreement, which matures in July 2002, 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 money market. A facility fee ranging from 1/8% to 3/8% is required on the total commitment. The margins over the certificate of deposit, the Euro-dollar rates and the facility fee are based upon the Company's leverage ratio. As of December 31, 1998, the Company had $184 million of unused borrowing capacity available under the terms of the revolving credit agreement.

Also during 1998, the Company amended its commercial paper credit facility to increase the borrowing capacity to $100 million from $75 million. A large portion of the Company's accounts receivable are pledged as collateral to secure this commercial paper program. This annually renewable program, which began in 1993, is scheduled to expire on October 30, 1999. As of December 31, 1998, the Company had $15 million of unused borrowing capacity under the terms of the commercial paper facility.

The Company has two interest rate swap agreements that fix the rate of interest on a notional principal amount of $50 million for a period of three years expiring December 2001. The average fixed rate obtained through these interest rate swaps is 6.2% including the Company's current borrowing spread of .425%. The counterparties to these two interest rate swaps have the right to terminate the swaps after the second year. The Company is also a party to 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 .425% is 7.2%. At December 31, 1997 and December 31, 1996 there were no active interest rate swap agreements.

The effective interest rate on the Company's revolving credit, demand and commercial paper program, including the interest rate swap expense incurred on existing and now expired interest rate swaps was 6.4%, 6.8% and 6.9% during 1998, 1997 and 1996, respectively. Additional interest expense recorded as a result of the Company's hedging activity was $75,000, $0 and $47,000 in 1998, 1997 and 1996, 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, 1998 was approximately $6.9 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 securities.

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, 1998. 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, 1998.

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, 1998.

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, 1998.

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 31.

(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, 1999, 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 Amendment No. 2 dated as of August 31, 1998, to Sale and Servicing Agreements dated as of various dates between each hospital company and UHS Receivables Corp., previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, is incorporated herein by reference.

10.13 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.

10.14 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.

10.15 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.

10.16 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.

10.17 Form of Amendment No. 3, dated as of August 31, 1998, to Pooling Agreement dated as of November 16, 1993, among UHS Receivables Corp., Sheffield Receivables Corporation and U.S. Bank National Association (successor to First Bank National Association and Continental Bank, National Association).

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

10.19 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.

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

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

10.22 Credit Agreement, dated as of 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.

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

10.24 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.

10.25 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.

10.26 1992 Stock Option Plan, As Amended, previously filed as Exhibit 10.32 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1997, is incorporated herein by reference.

10.27 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.

10.28 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.

10.29 $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.

10.30 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.

10.31 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.

10.32 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.

10.33 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., previously filed as Exhibit 10.29 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1997, is incorporated herein by reference.

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

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

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

10.37 1992 Corporate Ownership Program, 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 10, 1999

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 10, 1999
/s/ Sidney Miller Sidney Miller	Secretary and Director	March 17, 1999
/s/ Anthony Pantaleoni Anthony Pantaleoni	Director	March 17, 1999
/s/ Robert H. Hotz Robert H. Hotz	Director	March 17, 1999
/s/ John H. Herrell John H. Herrell	Director	March 17, 1999
/s/ Paul R. Verkuil Paul R. Verkuil	Director	March 17, 1999
/s/ Leatrice Ducat Leatrice Ducat	Director	March 17, 1999
/s/ Kirk E. Gorman Kirk E. Gorman	Senior Vice President and Chief Financial Officer	March 10, 1999
/s/ Steve Filton Steve Filton	Vice President, Controller and Principal Accounting Officer	March 10, 1999

UNIVERSAL HEALTH SERVICES, INC.

INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE

(ITEM 14(a))

Consolidated Financial Statements:

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, 1998 and 1997, 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, 1998. 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, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 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 11, 1999

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31		
	1998	1997	1996
	(In thousands, except per share data)		
Net revenues	$1,874,487	$1,442,677	$1,174,158
Operating charges			
Operating expenses	752,651	574,837	459,210
Salaries and wages	671,140	514,407	420,525
Provision for doubtful accounts	139,526	108,790	80,820
Depreciation & amortization	105,442	80,686	71,941
Lease and rental expense	46,516	38,401	37,484
Interest expense, net	27,117	19,382	21,258
Nonrecurring charges	--	--	4,063
Total operating charges	1,742,392	1,336,503	1,095,301
Income before minority interests and income taxes	132,095	106,174	78,857
Minority interests in earnings (losses) of consolidated entities	9,083	251	(1,147)
Income before income taxes	123,012	105,923	80,004
Provision for income taxes	43,454	38,647	29,333
Net income	$ 79,558	$ 67,276	$ 50,671
Earnings per common share--basic	$ 2.45	$ 2.08	$ 1.69
Earnings per common & common share equivalents--diluted	$ 2.39	$ 2.03	$ 1.65
Weighted average number of common shares--basic	32,511	32,321	30,054
Weighted average number of common share equivalents	782	777	744
Weighted average number of common shares and equivalents--diluted	33,293	33,098	30,798

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 1998	December 31, 1997
	(Dollar amounts in thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,260	$ 332
Accounts receivable, net	256,354	180,252
Supplies	38,842	28,214
Deferred income taxes	10,838	11,105
Other current assets	12,321	10,119
Total current assets	319,615	230,022
Property and Equipment		
Land	96,331	66,406
Buildings and improvements	647,108	538,326
Equipment	364,978	308,695
Property under capital lease	25,579	27,712
	1,133,996	941,139
Less accumulated depreciation	396,530	328,881
	737,466	612,258
Funds restricted for construction	43,413	41,031
Construction-in-progress	27,943	9,822
	808,822	663,111
Other Assets		
Excess of cost over fair value of net assets acquired	279,141	149,814
Deferred charges	13,533	10,852
Other	26,984	31,550
	319,658	192,216
	$1,448,095	$1,085,349
LIABILITIES AND COMMON STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt	$ 4,082	$ 5,655
Accounts payable	83,130	70,807
Accrued liabilities		
Compensation and related benefits	29,224	35,498
Interest	6,141	4,682
Taxes other than income	9,858	9,586
Other	37,365	32,521
Federal and state taxes	253	1,707
Total current liabilities	170,053	160,456
Other Noncurrent Liabilities	80,172	90,593
Minority Interest	129,423	34,693
Long-Term Debt	418,188	272,466
Deferred Income Taxes	23,252	534
Commitments and Contingencies		
Common Stockholders' Equity		
Class A Common Stock, voting, $.01 par value; authorized 12,000,000 shares; issued and outstanding 2,057,929 shares in 1998 and 2,059,929 in 1997	21	21
Class B Common Stock, limited voting, $.01 par value; authorized 75,000,000 shares; issued and outstanding 29,901,218 shares in 1998 and 30,122,479 in 1997	299	301
Class C Common Stock, voting, $.01 par value; authorized 1,200,000 shares; issued and outstanding 207,230 shares in 1998 and 207,230 in 1997	2	2
Class D Common Stock, limited voting, $.01 par value; authorized 5,000,000 shares; issued and outstanding 28,788 shares in 1998 and 32,063 in 1997	--	--
Capital in excess of par value, net of deferred compensation of $185 in 1998 and $295 in 1997	221,500	200,656
Retained earnings	405,185	325,627

627,007	526,607
$1,448,095	$1,085,349

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, 1998, 1997, and 1996

	Class A Common	Class B Common	Class C Common	Class D Common	Capital in Excess of Par Value	Retained Earnings	Total
				(Amounts in thousands)			
Balance January 1, 1996	$ 11	$127	$ 1	--	$ 89,881	$207,680	$297,700
Common Stock							
Issued	--	42	--	--	103,871	--	103,913
Converted	(1)	1	--	--	--	--	--
Stock dividend	11	128	1	--	(140)	--	--
Amortization of deferred compensation	--	--	--	--	696	--	696
Net income	--	--	--	--	--	50,671	50,671
Balance January 1, 1997	21	298	2	--	194,308	258,351	452,980
Common Stock							
Issued	--	3	--	--	6,141	--	6,144
Amortization of deferred compensation	--	--	--	--	286	--	286
Cancellation of stock grant	--	--	--	--	(79)	--	(79)
Net income	--	--	--	--	--	67,276	67,276
Balance January 1, 1998	21	301	2	--	200,656	325,627	526,607
Common Stock							
Issued	--	4	--	--	10,791	--	10,795
Repurchased	--	(6)	--	--	(24,900)	--	(24,906)
Amortization of deferred compensation	--	--	--	--	216	--	216
After-tax gain on partial sale of subsidiary	--	--	--	--	34,737	--	34,737
Net income	--	--	--	--	--	79,558	79,558
Balance December 31, 1998	$ 21	$299	$ 2	--	$221,500	$405,185	$627,007

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		
	1998	1997	1996
	(Amounts in thousands)		
Cash Flows from Operating Activities:			
Net income	$ 79,558	$ 67,276	$ 50,671
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	105,442	80,686	71,941
Other non-cash charges	--	--	4,063
Changes in assets and liabilities, net of effects from acquisitions and dispositions:			
Accounts receivable	(20,060)	(14,434)	(93)
Accrued interest	1,459	(217)	(614)
Accrued and deferred income taxes	3,541	16,241	15,699
Other working capital accounts	(8,327)	13,315	3,434
Other assets and deferred charges	(6,220)	334	(5,125)
Earnings (losses) of minority partners, net	9,083	251	(1,147)
Other	(2,837)	6,947	(840)
Accrued insurance expense, net of commercial premiums paid	8,933	20,003	15,874
Payments made in settlement of self-insurance claims	(18,888)	(16,232)	(7,872)
Net cash provided by operating activities	151,684	174,170	145,991
Cash Flows from Investing Activities:			
Property and equipment additions	(96,808)	(129,199)	(105,728)
Acquisition of businesses	(189,332)	(10,525)	(168,429)
Proceeds received from merger, sale or disposition of assets	16,404	15,230	1,765
Funds restricted for construction related to acquisition of business	--	(41,031)	--
Note receivable related to acquisition	--	--	(7,000)
Net cash used in investing activities	(269,736)	(165,525)	(279,392)
Cash Flows from Financing Activities:			
Additional borrowings	152,199	25,000	41,800
Reduction of long-term debt	(8,050)	(34,510)	(7,699)
Distributions to minority partners	(1,751)	(671)	(735)
Issuance of common stock	1,488	1,580	100,289
Repurchase of common shares	(24,906)	--	--
Net cash provided by (used in) financing activities	118,980	(8,601)	133,655
Increase in Cash and Cash Equivalents	928	44	254
Cash and Cash Equivalents, Beginning of Period	332	288	34
Cash and Cash Equivalents, End of Period	$ 1,260	$ 332	$ 288
Supplemental Disclosures of Cash Flow Information:			
Interest paid	$ 25,658	$ 19,599	$ 21,872
Income taxes paid, net of refunds	$ 39,913	$ 22,265	$ 13,634

Supplemental Disclosures of Non-cash Investing and Financing Activities:
See Notes 2 and 6

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of Universal Health Services, Inc. (the "Company"), its majority-owned subsidiaries and partnerships controlled by the Company 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 women's centers. At December 31, 1998, the Company operated 44 hospitals, consisting of 21 acute care hospitals, 20 behavioral health centers and 3 specialized women's health centers, in 15 states, the District of Columbia and Puerto Rico. The Company, as part of its Ambulatory Treatment Centers Division owns outright, or in partnership with physicians, and operates or manages 24 surgery and radiation oncology centers located in 12 states and the District of Columbia. As of December 31, 1998, the Company held majority interests in three separate partnerships/limited liability companies which own the property of, and manage, three radiation therapy centers located in Kentucky and California. Since the Company does not control the operations of these centers, the operating results of these centers are not included in the Company's consolidated financial statements.

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

Net revenues from the Company's acute care hospitals, ambulatory and outpatient treatment centers and women's center accounted for 87%, 85% and 85% of consolidated net revenues in 1998, 1997 and 1996, 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 46%, 50% and 51% of net patient revenues for the years 1998, 1997 and 1996, respectively.

Concentration of Revenues: Valley Hospital Medical Center and McAllen Medical Center each contributed 10% of the Company's 1998 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 $60.5 million and $46.6 million in 1998 and 1997, 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 and $800,000 of interest costs related to construction in progress in 1997 and 1996, respectively. No interest was capitalized in 1998.

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 $72.2 million in 1998 and $53.5 million in 1997, is amortized using the straight-line method over periods ranging from five to forty years. As of December 31, 1998, the weighted average amortization period is approximately eighteen years.

During 1994, the Company established an employee life insurance program covering approximately 2,200 employees. At December 31, 1998 and 1997, 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.

During 1996, the Company recorded a $2.9 million charge to write-down the carrying value of an ambulatory treatment center (which was divested in 1997) to its net realizable value. Also during 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, which was in default under terms of the lease agreement.

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

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

Minority Interest Liabilities: As of December 31, 1998, the $129.4 million minority interest balance consists primarily of a 27.5% outside ownership interest in three acute care facilities located in Las Vegas, Nevada and a 20% outside ownership interest in an acute care facility located in Washington, DC.

Earnings per Share: Basic earnings per share are based on the weighted average number of common shares outstanding during the year. Diluted earnings per share are based on the weighted average number of common shares outstanding during the year adjusted to give effect to common stock equivalents. All per share amounts for all periods presented have been restated to conform to Statement of Financial Accounting Standards No. 128.

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

Statement of Cash Flows: For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents. Interest expense in the consolidated statements of income is net of interest income of $2.6 million, $1.3 million and $173,000 in 1998, 1997 and 1996, 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.

Comprehensive Income: In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income". The standard establishes additional disclosure for the elements of comprehensive income and a total comprehensive income calculation. Net income as reported by the Company reflects total comprehensive income for the years ended December 31, 1998, 1997 and 1996.

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: Certain prior year amounts have been reclassed to conform with the current year presentation.

Accounting Pronouncement Not Yet Adopted: In June 1998, the FASB issued SFAS No 133, "Accounting Derivative Instruments and Hedging Activities". The Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either and asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

SFAS No 133 is effective as of the beginning of fiscal years beginning after June 15, 1999. A company may also implement the SFAS No. 133 as of the beginning of any fiscal quarter after the issuance. SFAS No. 133 cannot be applied retroactively. SFAS No. 133 must be applied to: (a) derivative instruments, and; (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantially modified after December 31, 1997 (and at the Company's election, before January 1, 1998).

The Company has not yet quantified the impact of adopting SFAS No. 133 on its financial statements and has not determined the timing of or method of adoption of SFAS No. 133. However, SFAS No. 133 could increase the volatility in earnings and other comprehensive income.

2) ACQUISITIONS AND DIVESTITURES

1999 -- The Company executed a letter of intent to purchase three behavioral health services facilities located in Illinois, Indiana and New Jersey. Also, the Company executed a letter of intent to purchase two additional behavioral health services facilities located in Illinois. Both of these transactions, which are subject to regulatory approval, are expected to be completed in the second quarter of 1999 for a combined purchase price of approximately $46 million.

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

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

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

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

Assuming the 1998 acquisition of Hospital San Pablo and Hospital San Francisco had been completed as of January 1, 1998, the effect on the December 31, 1998 unaudited pro forma net revenues, net income and basic and diluted earnings per share would have been immaterial, as the acquisitions occurred early in 1998. Assuming the above mentioned 1998 acquisitions and the 1997 acquisition of The George Washington University Hospital ("GWUH") had been completed as of January 1, 1997, the unaudited pro forma net revenues and net income for the year ended December 31, 1997 would have been approximately $1.6 billion and $63.9 million, respectively. In addition, the unaudited pro forma basic and diluted earnings per share would have been $1.98 and $1.93, respectively.

1997 -- During the third quarter of 1997 the Company acquired an 80% interest in a partnership which owns and operates GWUH, 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, theCompany 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 371-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 quarter 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. 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 and 1998, which totaled approximately $600,000, was accounted for as an increase to the previously recorded excess of cost over face value of net assets acquired when determined in accordance with paragraph 79 of APB No. 16. 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 was completed during the first quarter of 1997.

The aggregate purchase price for these acquisitions of $168 million, excluding the additional contingent consideration recorded in 1997 and 1998, 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.

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 periods ranging from fifteen to thirty-five years. Operating results from all of the businesses acquired have been included in the financial statements from their respective dates of acquisitions. 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 1998	December 31 1997
	(000s)	
Long-term debt:		
Notes payable and Mortgages payable (including obligations under capitalized leases of $4,185 in 1998 and $8,020 in 1997) with varying maturities through 2001; weighted average interest at 6.8% in 1998 and 6.7% in 1997 (see Note 6 regarding capitalized leases)	$ 9,062	$ 14,764
Revolving credit and demand notes	175,740	36,000
Commercial paper	85,000	75,000
Revenue bonds:		
Interest at floating rates ranging from 3.4% to 3.6% at December 31, 1998 with varying maturities through 2015	18,200	18,200
8.75% Senior Notes due 2005, net of the unamortized discount of $732 in 1998 and $843 in 1997	134,268	134,157
	422,270	278,121
Less-Amounts due within one year	4,082	5,655
	$418,188	$272,466

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

The Company has an unsecured non-amortizing revolving credit agreement, which expires on July 8, 2002. Borrowing capacity under the agreement was increased in April, 1998 from $300 million to $400 million. The agreement includes a $50 million sublimit for letters of credit. Also during 1998, the banks participating in the Company's revolving credit agreement agreed to fully discharge the obligation of the Company's subsidiaries to guarantee the parent company's obligations under the revolving credit agreement. The interest rate on borrowings is determined 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, 1998 the applicable margins over the certificate of deposit and the Euro-dollar rate were .55% and .425%, respectively, and the commitment fee was .20%. There are no compensating balance requirements. At December 31, 1998, the Company had $184 million of unused borrowing capacity available under the revolving credit agreement.

The average amounts outstanding during 1998, 1997 and 1996 under the revolving credit and demand notes and commercial paper program were $234.2 million, $100.3 million, and $108.1 million, respectively, with corresponding effective interest rates of 6.4%, 6.8%, and 6.9% including commitment and facility fees. The maximum amounts outstanding at any month-end were, $289.6 million, $124.2 million, and $220.7 million during 1998, 1997 and 1996, respectively.

Also during 1998, the Company amended its commercial paper credit facility to increase the borrowing capacity to $100 million from $75 million. A large portion of the Company's accounts receivable are pledged as collateral to secure this commercial paper program. A commitment fee of .40% is required on the used portion and .20% on the unused portion of the commitment. This annually renewable program, which began in November, 1993, is scheduled to expire on October 30, 1999. Outstanding amounts of commercial paper that can be refinanced through available borrowings under the Company's revolving credit agreement are classified as long-term. As of December 31, 1998, the Company had $15 million unused borrowing capacity under the terms of the commercial paper facility.

The Company has two interest rate swap agreements that fix the rate of interest on a notional principal amount of $50 million for a period of three years expiring December, 2001. The average fixed rate obtained through these interest rate swaps is 6.20% including the Company's current borrowing spread of .425%. The counterparties to these two interest rate swaps have the right to terminate the swaps after the second year. The Company is also a party to 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 .425% is 7.2%. At December 31, 1997 and December 31, 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 existing and now expired interest rate swaps, was 6.4%, 6.8%, and 6.9% during 1998, 1997 and 1996, respectively. Additional interest expense recorded as a result of the Company's hedging activity was $75,000, $0, and $47,000 in 1998, 1997 and 1996, 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 creditworthy 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, 1998 was approximately $6.9 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, 1998.

The fair value of the Company's long-term debt at December 31, 1998 and 1997 was approximately $429.0 million and $285.9 million, respectively.

Aggregate maturities follow:

	(000s)
1999	$ 4,082
2000	3,438
2001	286
2002	261,996
2003	0
Later	152,468
Total	$422,270

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.

During the third quarter of 1998, the Company's Board of Directors approved a stock repurchase program under which the Company is authorized to purchase up to two million shares or approximately 6% of its outstanding Class B Common Stock. As of December 31, 1998, the Company repurchased 580,500 shares at an average repurchase price of $42.90 per share ($24.9 million in the aggregate) pursuant to this program.

At December 31, 1998, 5,393,733 shares of Class B Common Stock were reserved for issuance upon con- version 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.

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

	Year Ended December 31		
	1998	1997	1996
	(000s, except per share amounts)		
Net Income:			
As Reported	$ 79,558	$ 67,276	$ 50,671
Pro Forma	$ 78,362	$ 66,672	$ 50,217
Earnings Per Share:			
As Reported:			
Basic	$ 2.45	$ 2.08	$ 1.69
Diluted	$ 2.39	$ 2.03	$ 1.65
Pro Forma:			
Basic	$ 2.41	$ 2.06	$ 1.67
Diluted	$ 2.35	$ 2.01	$ 1.63

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 nine option grants that occurred during 1998, 1997 and 1996:

Year Ended December 31	1998	1997	1996
Volatility	21%-28%	21%-23%	26%-30%
Interest rate	5%-6%	6%-7%	6%-7%
Expected life (years)	4.1	4.2	4.1
Forfeiture rate	2%	2%	3%

Stock-based compensation costs on a pro forma basis would have reduced pretax income by $1.9 million ($1.2 million after-tax) in 1998, $1.0 million ($604,000 after-tax) in 1997 and $735,000 ($454,000 after-tax) in 1996. 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, 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, January 1, 1998	1,415,573	$18.71	$44.56-$ 7.44
Granted	448,000	$51.73	$56.56-$47.81
Exercised	(262,511)	$14.46	$41.25-$ 7.44
Cancelled	(8,500)	$37.89	$47.81-$23.25
Balance, December 31, 1998	1,592,562	$28.60	$56.5625-$9.8125

Outstanding Options at December 31, 1998:

Number of Shares	Average Option Price	Range (High-Low)	Contractual Life
711,413	$46.92	$56.56-$23.25	4.3
881,150	$13.80	$ 22.94-$9.81	1.4
1,592,563			

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, 1998 have an average remaining contractual life of 2.7 years. At December 31, 1998, options for 321,699 shares were available for grant. At December 31, 1998, options for 791,447 shares of Class B Common Stock with an aggregate purchase price of $12.0 million (average of $15.15 per share) were exercisable. In connection with the stock option plan, the Company provides the optionee with a three year loan to cover the tax liability incurred upon exercise of the options. The loan is forgiven on the maturity date if the optionee is employed by the Company on that date. The Company recorded compensation expense over the service period and recognized compensation expense of $8.4 million in 1998, $5.1 million in 1997 and $3.9 million in 1996 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 will loan each eligible employee 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 842,127 shares pursuant to the terms of these plans as of December 31, 1998, of which 42,010, 41,196 and 74,871 became fully vested during 1998, 1997 and 1996, respectively. Compensation expense of $488,000 in 1998, $5.2 million in 1997 and $2.8 million in 1996 was recognized in connection with these plans.

5) INCOME TAXES

Components of income tax expense are as follows:

	Year Ended December 31 (000s)		
	1998	1997	1996
Currently payable			
Federal	$ 18,731	$ 23,923	$ 13,888
State	1,738	2,989	1,479
	20,469	26,912	15,367
Deferred			
Federal	21,122	10,201	12,140
State	1,863	1,534	1,826
	22,985	11,735	13,966
Total	$ 43,454	$ 38,647	$ 29,333

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	
	1998	1997
	(000s)	
Self-insurance reserves	$ 31,984	$ 36,079
Doubtful accounts and other reserves	(1,699)	(694)
State income taxes	766	(800)
Other deferred tax assets	7,532	4,654
Depreciable and amortizable assets	(50,997)	(28,668)
Total deferred taxes	$(12,414)	$ 10,571

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

	Year Ended December 31		
	1998	1997	1996
Federal statutory rate	35.0%	35.0%	35.0%
Deductible depreciation, amortization and other	(1.6)	(1.3)	(1.0)
State taxes, net of federal income tax benefit	1.9	2.8	2.7
Effective tax rate	35.3%	36.5%	36.7%

In 1998 and 1997, 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	
	1998	1997
	(000s)	
Current deferred taxes		
Assets	$ 12,315	$ 11,799
Liabilities	(1,477)	(694)
Total deferred taxes--current	10,838	11,105
Noncurrent deferred taxes		
Assets	27,967	28,934
Liabilities	(51,219)	(29,468)
Total deferred taxes--noncurrent	(23,252)	(534)
Total deferred taxes	$(12,414)	$ 10,571

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 in not assured, management believes it is more likely than not that all the deferred tax assets will be realized. Accordingly, the Company has not provided a valuation allowance. The amount of the deferred tax asset considered realizable, however, could be reduced if estimates of future taxable income during the carry forward period are reduced.

6) LEASE COMMITMENTS

Certain of the Company's hospital and medical office facilities and equipment are held under operating or capital leases which expire through 2006 (See Note 8). Certain of these leases also contain provisions allowing the Company to purchase the leased assets during the term or at the expiration of the lease at fair market value.

A summary of property under capital lease follows:

	Year Ended December 31	
	1998	1997
	(000s)	
Land, buildings and equipment	$ 25,579	$ 27,712
Less: accumulated amortization	22,084	20,592
	$ 3,495	$ 7,120

Future minimum rental payments under lease commitments with a term of more than one year as of December 31, 1998, are as follows:

Year	Capital Leases	Operating Leases
	(000s)	
1999	$2,967	$ 21,180
2000	1,321	18,949
2001	136	16,864
2002	--	10,947
2003	--	10,065
Later Years	--	30,003
Total minimum rental	$4,424	$108,008
Less: Amount representing interest	239	
Present value of minimum rental commitments	4,185	
Less: Current portion of capital lease obligations	2,631	
Long-term portion of capital lease obligations	$1,554	

Capital lease obligations of $160,000, $3.1 million and $1.9 million in 1998, 1997, and 1996, 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 1998 and 1997 the reserve for professional and general liability claims was $65.0 million and $74.2 million, respectively, of which $5.5 million and $12.0 million in 1998 and 1997, 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 $53.6 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) $7.0 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) $800,000 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, 1998, 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 $1.1 million in each year ended December 31, 1998, 1997 and 1996, and is included in net revenues in the accompanying consolidated statements of income. The carrying value of this investment at December 31, 1998 and 1997 was $8.2 million and $8.3 million, respectively, and is included in other assets in the accompanying consolidated balance sheets. The market value of this investment at December 31, 1998 and 1997 was $13.7 million and $15.3 million, respectively.

As of December 31, 1998, the Company leased seven hospital facilities from the Trust with terms expiring in 2000 through 2006. These leases contain up to six 5-year renewal options. During 1998, the Company exercised five-year renewal options on four hospitals leased from the Trust which were scheduled to expire in 1999 through 2001. The leases on these facilities were renewed at the same lease rates and terms as the initial leases. Future minimum lease payments to the Trust are included in Note 6. Total rent expense under these operating leases was $16.5 million in 1998, $16.3 million in 1997 and $16.2 million in 1996. The terms of the lease provide that in the event the Company discontinues operations at the leased facility for more than one year, the Company is obligated to offer a substitute property. If the Trust does not accept the substitute property offered, the Company is obligated to purchase the leased facility back from the Trust at a price equal to the greater of its then fair market value or the original purchase price paid by the Trust. The Company received an advisory fee of $1.2 million in 1998, $1.1 million in 1997, and $1.0 million in 1996 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 issued during 1996.

9) 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 $4.6 million, $3.6 million, and $2.0 million in 1998, 1997 and 1996, respectively. The non-contributory plan is a defined benefit pension plan which covers employees of one of the Company's subsidiaries. The benefits are based on years of service and the employee's highest compensation for any five years of employment. The Company's funding policy is to contribute annually at least the minimum amount that should be funded in accordance with the provisions of ERISA.

The following table shows reconciliations of the defined benefit pension plan for the Company as of December 31, 1998 and 1997:

	1998	1997
	(000s)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 43,573	$ 37,709
Service cost	904	854
Interest cost	3,001	2,783
Benefits paid	(1,381)	(1,563)
Actuarial loss	3,188	3,790
Benefit obligation at end of year	49,285	43,573
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 33,974	$ 26,220
Actual return on plan assets	7,998	6,964
Company contributions	10,203	2,398
Benefits paid	(1,381)	(1,563)
Administrative expenses	(92)	(45)
Fair value of plan assets at end of year	$ 50,702	$ 33,974
Funded status of the plan	$ 1,417	$ (9,599)
Unrecognized actuarial (gain)	(3,559)	(2,157)
Net amount recognized	(2,142)	(11,756)
Total amounts recognized in the balance sheet consist of:		
Accrued benefit liability	$ (2,142)	$(11,756)
Weighted average assumptions as of December 31		
Discount rate	6.75%	7.00%
Expected long-term rate of return on plan assets	9.00%	9.00%
Rate of compensation increase	4.00%	4.00%

	1998	1997	1996
		(000s)	
Components of net periodic benefit cost			
Service cost	$ 905	$ 854	$ 1,111
Interest cost	3,001	2,783	2,574
Expected return on plan assets	(3,316)	(2,446)	(1,919)
Net periodic benefit cost	$ 590	$ 1,191	$ 1,766

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plan with benefit obligations in excess of plan assets were, $43.6 million, $40.0 million and $34.0 million, respectively, as of December 31, 1997. As of December 31, 1998, the fair value of plan assets exceeded the benefit obligations of the plan.

10) SEGMENT REPORTING (unaudited)

The Company adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", in 1998. SFAS No. 131 established standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to stockholders. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

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

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

1997	Acute Care Services	Behavioral Health Services	Other	Total Consolidated
Gross inpatient revenues.......	$1,737,092	$312,663	$ 7,011	$2,056,766
Gross outpatient revenues......	$ 608,470	$ 78,118	$ 57,791	$ 744,379
Total net revenues.............	$1,189,043	$205,640	$ 47,994	$1,442,677
EBITDAR(a).....................	$ 252,839	$ 35,333	$(43,529)	$ 244,643
Total assets...................	$ 847,854	$128,662	$108,833	$1,085,349
Licensed beds..................	3,389	1,777	--	5,166
Available beds.................	2,951	1,762	--	4,713
Patient days...................	616,965	336,850	--	953,815
Admissions.....................	128,020	28,350	--	156,370
Average length of stay.........	4.8	11.9	--	6.1

1996	Acute Care Services	Behavioral Health Services	Other	Total Consolidated
Gross inpatient revenues.......	$1,449,014	$249,684	$ 2,569	$1,701,267
Gross outpatient revenues......	$ 494,716	$ 55,314	$ 50,545	$ 600,575
Total net revenues.............	$ 970,158	$165,613	$ 38,387	$1,174,158
EBITDAR(a).....................	$ 220,918	$ 29,431	$(36,746)	$ 213,603
Total assets...................	$ 716,355	$114,862	$134,578	$ 965,795
Licensed beds..................	3,018	1,565	--	4,583
Available beds.................	2,641	1,540	--	4,181
Patient days...................	546,237	275,667	--	821,904
Admissions.....................	111,244	22,295	--	133,539
Average length of stay.........	4.9	12.4	--	6.1

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

11) QUARTERLY RESULTS (unaudited)

The following tables summarize the Company's quarterly financial data for the two years ended December 31, 1998.

1998	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(000s, except per share amounts)			
Net revenues	$463,117	$474,558	$456,090	$480,722
Income before income taxes	$ 39,879	$ 31,669	$ 20,428	$ 31,036
Net income	$ 25,650	$ 20,461	$ 13,393	$ 20,054
Earnings per share--basic	$ 0.79	$ 0.63	$ 0.41	$ 0.62
Earnings per share--diluted	$ 0.77	$ 0.61	$ 0.40	$ 0.61

Net revenues in 1998 include $36.5 million of additional revenues received from special Medicaid reimbursement programs. Of this amount, $8.6 million was recorded in the first and second quarters, $9.2 million in the third quarter and $10.1 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. These programs are scheduled to terminate in the third quarter of 1999 and although these programs have been renewed annually in the past, the Company can not predict whether these programs will continue beyond their scheduled termination date. However, failure to renew these programs at their current reimbursement levels could have a material adverse effect on the Company's future operating results.

During the third quarter of 1998, the Company suffered property damage and curtailed business at its three hospitals in Puerto Rico and its four hospitals in Louisiana as a result of Hurricane Georges. As a result, the Company incurred pre-tax adverse financial effects related to the Hurricane totaling $5.5 million ($3.5 million after-tax) or $.11 share (diluted) during the third quarter of 1998. During the fourth quarter of 1998, the Company recorded pre-tax insurance recoveries related to Hurricane Georges of $3.0 million ($1.9 million after-tax) or $.06 per share (diluted). The net pre-tax adverse financial effect of the Hurricane on the Company's 1998 results of operations was $2.5 million ($1.6 million after-tax) or $.05 per share.

1997	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(000s, except per share amounts)			
Net revenues	$340,170	$343,826	$362,377	$396,304
Income before income taxes	$ 33,981	$ 26,467	$ 21,879	$ 23,596
Net income	$ 21,530	$ 16,907	$ 13,819	$ 15,020
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 was recorded in each of the second and third quarters and $8.6 million in the fourth quarter.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Additions: Charges to Costs and Expenses	Additions: Acquisitions of Businesses	Write-Off of Uncollectible Accounts	Balance at End of Period
			(000s)		
ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE:					
Year ended December 31, 1998.............	$46,615	$139,526	$ 7,377	$(133,038)	$60,480
Year ended December 31, 1997.............	$30,398	$108,790	$ 7,200	$ (99,773)	$46,615
Year ended December 31, 1996.............	$49,016	$ 96,872	$10,324	$(125,814)	$30,398

INDEX TO EXHIBITS

10.4 Agreement, effective January 1, 1999, to renew Advisory Agreement, dated as of December 24, 1986, between Universal Health Realty Income Trust and UHS of Delaware, Inc.

10.17 Form of Amendment No.3, dated as of August 31, 1998, to Pooling Agreement dated as of November 16, 1993, among UHS Receivables Corp., Sheffield Receivables Corporation and U.S. Bank National Association (successor to First Bank National Association and Continental Bank, National Association).

10.37 1992 Corporate Ownership Program, as Amended.

22. Subsidiaries of Registrant

24. Consent of Independent Public Accountants.

27. Financial Data Schedule

[LETTERHEAD OF UNIVERSAL HEALTH]

January 7, 1999

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

Dear Alan:

The Board of Trustees of Universal Health Realty Income Trust at their December 1, 1998, 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, 1999, upon the same terms and conditions. Please acknowledge UHS of Delaware, Inc.'s acceptance of this offer by signing in the space provided below and returning one copy of this letter to me.

Sincerely yours,

/s/ Kirk E. Gorman
President and Secretary

cc: Warren J. Nimetz, Esquire
Charles Boyle

Agreed to and Accepted:

UHS OF DELAWARE, INC.

By: /s/ Alan B. Miller

Alan B. Miller, President

AMENDMENT NO. 3 TO POOLING AGREEMENT

AMENDMENT NO. 3, dated as of August 31, 1998 (this "Amendment"), to Pooling Agreement dated as of November 16, 1993 (as amended, supplemented or otherwise modified from time to time, the "Pooling Agreement"), among UHS Receivables Corp., a Delaware corporation (together with its successors and assigns, "Finco"), Sheffield Receivables Corporation, a Delaware corporation (together with its successors and assigns, "Sheffield"), and U.S. Bank National Association, formerly known as First Bank National Association, a national banking association (successor in interest to First Bank National Association and Continental Bank, National Association), as trustee (in such capacity, together with its successors and assigns, the "Trustee").

W I T N E S S E T H :

WHEREAS, pursuant to the Sale and Servicing Agreements (capitalized terms used without definition in the recitals have the meanings assigned to them in the Pooling Agreement, including without limitation definitions incorporated by reference from the Definitions List) the Hospitals have agreed to sell, and Finco has agreed to purchase, the Receivables and other Transferred Property;

WHEREAS, Finco has assigned and transferred to the Trustee on behalf of the Trust and pursuant to the terms and conditions set forth in the Pooling Agreement all of its right, title and interest in, to and under the Receivables and other Finco Transferred Property;

WHEREAS, Finco, Sheffield and the Trustee wish to amend the Pooling Agreement to provide for a change in the Definitions List incorporated by reference into the Pooling Agreement;

NOW THEREFORE, the parties hereto agree as follows:

Section 1. Changed Definition. The Pooling Agreement is hereby amended to replace the definition of "Maximum Sheffield Capital" incorporated by reference from the Definitions List with the following definition:

MAXIMUM SHEFFIELD CAPITAL: $100,000,000, as such amount may be increased from time to time in accordance with Section 2.13 of the Pooling Agreement.

Section 2. Effect of Amendment. The Pooling Agreement as modified by this Amendment shall remain in full force and effect, and all references in the Pooling Agreement to "this Agreement" shall mean the Pooling Agreement as amended hereby unless the meaning requires otherwise.

Section 3. Counterparts. This Amendment may be executed in any number of copies, and by the different parties hereto on the same or separate counterparts, each of which shall be deemed to be an original instrument.

Section 4. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE INTERNAL LAW OF THE STATE OF NEW YORK WITHOUT REFERENCE TO CONFLICTS OF LAW RULES OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, Finco, Sheffield and the Trustee have caused this Agreement to be duly executed by their duly authorized officers, all on the day and year first above written.

UHS RECEIVABLES CORP.

By: -------------------------------
Title:

SHEFFIELD RECEIVABLES CORPORATION

By: -------------------------------
Title:

U.S. BANK NATIONAL ASSOCIATION, formerly known as FIRST BANK NATIONAL ASSOCIATION, as Trustee

By: -------------------------------
Title:

EXHIBIT 10.37

THE UNIVERSAL HEALTH SERVICES, INC.
1992 CORPORATE OWNERSHIP PROGRAM, AS AMENDED

I--INTRODUCTION

1. Purpose. The purpose of the 1992 Corporate Ownership Program (the "'Program") is to promote the interests of Universal Health Services, Inc. (together with its subsidiaries, referred to as the "Company") and its stockholders by providing an opportunity for participating Key Employees, upon whose involvement, initiative and efforts the Company is largely dependent for the successful conduct of its business, to purchase Common Stock of the Company in a manner which will (a) provide an increased incentive for such Key Employees to exert their best efforts on behalf of the Company, (b) strengthen the ability of the Company to recruit and retain those persons possessing outstanding competence and the ability to contribute significantly to the Company's success, (c) reward those Key Employees who have made significant contributions to the Company in the past, and (d) further identify the interests of such Key Employees with those of the Company and its stockholders by increasing the desire of such Key Employees to maximize the value of the Company.

II--DEFINITIONS

2.1. "Accrued Interest" means the interest that accrues on the principal amount of the Loan and which shall be determined by applying the Applicable Borrowing Rate at the time the Loan is made.

2.2. "Applicable Borrowing Rate" means, with respect to any Loan, the Applicable Federal Rate, rounded up to the nearest tenth of one percent, or any such higher rate as specified by the Committee.

2.3. "Board" means the Board of Directors of the Company, provided that if any action taken by the Board relates to a Participant who is a director of the Company, the majority of the directors approving such action shall be disinterested directors. Any action required of or permitted to be taken by the Board may be taken by a majority of the members of the Committee.

2.4. "Committee" means the Compensation Committee of the Board. The Committee shall consist of two or more of the members of the Board, all of whom shall be disinterested persons within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

2.5. "Common Stock" means shares of Class B Common Stock, par value $.01 per share, of the Company.

2.6. "Confirmation" means the written statement that the Company promptly mails to a Participant's home address that (i) verifies the terms of the Loan Agreement entered into between the Company and a Participant and (ii) restates the account activity and Loan and Share balance as of March 15 of each year.

2.7. "Key Employee" means an officer, Managing Director, Corporate Director, Administrator, Director of Nursing or Controller of the Company.

2.8. "Loan" means the loan made to a Participant pursuant to the Loan Agreement, the terms of which are described in Section 3.7 hereof.

2.9 "Loan Request Form" means the application which a Key Employee submits to the Treasury Department pursuant to which the Company enters into an agreement with the Key Employee to loan him or her 90% of the Purchase Price of Common Stock (the "Loan Agreement"), and pursuant to which the Key Employee enters into an agreement with the Company to pledge the purchased Shares to the Company as collateral for the Loan (the "'Pledge Agreement").

2.10 "Notes" means the recourse and nonrecourse promissory notes signed by the Participant which together evidence the Loan entered into under the Loan Agreement.

2.11 "Participant" means and Key Employee of the Company who has submitted a Loan Request Form and has entered into a Loan Agreement and Pledge Agreement with the Company.

2.12 "Purchase Date" means the date that the Loan Agreement and Pledge Agreement are entered into by and between the Company and the Participant and the Notes are signed by the Participant.

2.13 "Purchase Price" means the closing price of the Common Stock, as reported on the composite tape for securities listed on the New York Stock Exchange, on the Purchase Date, or the first closing price of the Common Stock thereafter if the Common Stock is not traded on the Purchase Date.

2.14 "Restricted Shares" means all of the Shares for a period of one year, and one-half of the Shares for a period of two years, from the Purchase Date of such Shares.

2.15 "Shares" means the shares of common Stock purchased by a Participant pursuant to the Program.

2.16 "Treasury Department" means the treasury department of the Company

III--OPERATION

3.1 Aggregate Number of Shares Subject to Program. The aggregate number of shares of Common Stock as to which purchase rights may be granted from time to time under the Program is 400,000 shares, provided that any Shares repurchased by foreclosure, forfeited by the Participant or otherwise returned to the Company shall again be available for sale under the Program. Sales hereunder may be made from authorized but unissued shares of Common Stock or from treasury shares.

3.2 Adjustment. (a) If the outstanding Common Stock of the Company changes as a result of stock dividends, split-ups, recapitalization, or the like, proportionate adjustments shall automatically be made in (i) the maximum number of shares of Common Stock authorized for issuance under this Program and (ii) the number and kind of shares reserved for sale under the Program. If any such adjustment shall result in a fractional share of Common Stock being available for issuance under the Program, such fraction shall be disregarded. Any adjustments hereunder shall be effective as of the effective date of the event giving rise to the adjustment and shall be conclusive when made by the Board.

(b) If the outstanding shares of Common Stock are changed into or exchanged for a different number or kind of shares or other securities or property (including cash) of the Company or of another corporation for any reason, including by reason of reorganization, merger, sale or transfer of all or substantially all of the Company's assets to another corporation, or exchange of shares or consolidation, the Board may, in its discretion, make appropriate adjustments in the number and kind of shares, other securities, or property available for issuance and sale under the Program. Any adjustments under this subparagraph (b) shall be effective as of the effective date of the event giving rise to the adjustment and shall be conclusive when made by the Board.

3.3 Eligibility. Each Key Employee shall be eligible to participate in the Program after one year of employment with the Company.

3.4 Offer and Acceptance.

3.4.1. Offer. The Company shall offer to loan 90% of the Purchase Price to all eligible Key Employees to finance their purchase of Common Stock. Such offer shall be subject to the terms provided in Section 3.4.2. hereof.

3.4.2. Terms of Offer. Each offer to loan money to Key Employees to finance the purchase of Common Stock under this Program shall be subject to the following: (i) the Company shall not make a loan for less than $500 to any Key Employee, (ii) the Company shall not enter into a Loan Agreement with a Key Employee within ninety (90) days of that Key Employee's most recent prior Purchase Date, (iii) the Company shall not make a loan to a Key Employee for an amount greater than 90% of that Key Employee's current base annual salary, and (iv) the Company shall not loan to any one single Key Employee an amount which would cause the outstanding balance of the principal amount of all Loans to that Key Employee to exceed 180% of that Key Employee's current base annual salary.

3.4.3. Acceptance. Key Employees may purchase Shares under the Plan by completing a Loan Request Form and submitting it to the Treasury Department. The Company and the Key Employee shall then enter into a Loan Agreement and Pledge Agreement, and the Participant shall sign the Notes evidencing the Loan. To the extent that the various agreements are not inconsistent with the terms and conditions of the Program, the Company and the Key Employee shall be bound by the terms of the various agreements, and the Key Employee shall become a Participant in the Program; provided, however, that the Participant fulfills the condition set forth in Section 3.5 herein.

3.5. Payment of Purchase Price. Each Participant shall pay for the Shares purchased by delivering to the Treasury Department a check payable to Universal Health Services, Inc. within five (5) calendar days of the Purchase Date. The check shall be for 11.11% of the amount of the Loan requested by the Participant and shall be payment for 10% of the Purchase Price of the Shares. Notwithstanding the foregoing, no closing shall occur under any Loan Agreement prior to the date that the Company's stockholders approve the Plan.

3.6. Confirmation. As soon as practicable after the Purchase Date, the Company shall mail a Confirmation to the Participant. A Confirmation shall be mailed to the Participant thereafter on or about the 15th day of every March confirming the account activity and the Loan and Share balances.

3.7. Financing.

3.7.1. Terms of Loan. The Company's Loan to a Participant shall be for 90% of the Purchase Price of the Shares. Such Loan shall be evidenced by the Loan Agreement and the Notes, each of which shall contain the relevant terms and conditions set forth in this Section 3.7 and such other terms and conditions not inconsistent with the Program, as the Committee shall determine. The Company shall have recourse, in the amount of 26% of the original principal amount of the Loan, to the personal assets of the Participant. The Loan shall also be secured by the pledge of the Shares as evidenced by the Pledge Agreement. The principal of the Loan shall bear interest at the Applicable Borrowing Rate, and the principal and Accrued Interest thereon shall be payable at the end of the term of the Loan. The Loan shall be for a term of five years or for some term not shorter than five years from the Purchase Date, as the Committee shall decide. However, unless otherwise determined by the Committee, if the employment of the Participant is terminated for any reason other than death, the principal and Accrued Interest due on all outstanding Loans to the Participant under the Program shall become due in full within 90 days of the date of termination. The Notes shall be subject to prepayment in whole or in part, at any time and from time to time, without premium or penalty. However, if the Notes are paid in whole or part within two years of the Purchase Date, none of the Restricted Shares shall be released from restriction at any time during the one-year period from the Purchase Date, and no more than one-half of such Shares shall be released during the two-year period from the Purchase Date. In the event of death of the participant, all restrictions on transfer of any Restricted Shares shall lapse, but such Shares shall still be subject to the terms of the Pledge Agreement.

3.7.2. Security of Loan; Restrictions on Shares. The Participant shall be required to pledge the Shares to the Company as collateral for the Loan pursuant to the Pledge Agreement. In addition, the Participant may not transfer or dispose of any Shares within a period of one year from their Purchase Date and may not transfer or dispose of one-half of such Shares within the period of two years from their Purchase Date. Notwithstanding anything to the contrary herein, the Committee may waive and may agree in advance to waive any contractual restrictions on the transfer of the Shares.

3.7.3. Tax Withholding. The Company shall have the right to take such actions and to impose such conditions as it deems appropriate in order to collect from a Key Employee the amounts needed to satisfy the Company's income tax withholding obligations with respect to Stock Bonuses and Stock Bonus Premiums awarded to the Key Employee, including, without limitation, deducting the withholding amount from the Key Employee's cash and/or stock compensation.

3.8. Issuance of Shares; Rights as a Stockholder.

3.8.1. Stock Certificates. After the Purchase Date and upon receipt by the Company of a check for 10% of the Purchase Price for the Shares and the Notes, the Shares will, to the fullest extent permitted by law, be deemed to be fully paid and nonassessable shares of Common stock. Stock certificates representing the Shares shall be registered in the Participant's name. Certificates representing the Shares shall be held by the Company.

3.8.2. Legend. Certificates representing the Shares shall bear legends indicating that the Shares have been pledged to the Company and may be subject to other restrictions under the Program.

3.8.3. Rights as a Shareholder. Except as otherwise provided under the Program, in the Loan Agreement, the Notes and the Pledge Agreement, a Participant who receives Shares pursuant to the Program shall have the same rights and privileges as any other stockholder holding Common Stock, including, without limitation, the right to vote such Shares or other shares of stock and to receive distributions and dividends on such Shares.

3.9. Sales of Shares by Participant.

3.9.1. Terms of Sale. Participant may sell up to one-half of the Shares at any time after one year from their Purchase Date, and all of the Shares after two years from their Purchase Date, by calling the Treasury Department and stating the number of Shares to be sold. The Company shall sell the Shares in a broker's transaction on behalf of the Participant on or about the day such notice to sell is received. Proceeds from the sale of Shares will be applied first to the repayment of the Accrued Interest, then to the recourse portion of the Loan and, finally, to the non-recourse portion of the Loan. After all Loans and Accrued Interest due and payable have been paid in full, proceeds will be distributed to the Participant by check mailed to the Participant's home address. To the extend that the proceeds from the sale of Shares do not cover the Loan and Accrued Interest due and payable, the Company shall have recourse against the Participant only as to 26% of the original principal amount of such Loan.

3.9.2. Selling Price. The price of the Shares sold shall be the actual selling price of the Shares, less any selling expenses.

IV-GENERAL

4.1. Administration. The Program shall be administered by the Committee, which shall have full and exclusive power to interpret the Program, to grant waivers of Program restrictions and to adopt such rules, regulations and guidelines for carrying out the Program as it may deemed necessary or proper, all of which powers shall be executed in the best interests of the Company and in keep in with the objectives of the Program.

4.2. Expenses. All expenses and costs in connection with the adoption and administration of the Program shall be borne by the Company except to the extent that expenses are incurred in connection with a foreclosure on any Loan made to a Participant pursuant to the Plan, unless provided for otherwise in any of the various agreement hereunder.

4.3 No Prior Right or Offer. Except and until expressly granted pursuant to the Program, nothing in the Program shall be deemed to give any Key Employee, or his legal representatives or assigns or any other person or entity claiming under or through him, any contractual or other right to participate in the benefits of the Program.

4.4. Action Taken in Good Faith, Indemnification. The Board and the Committee may employ attorneys, consultants, accountants or other persons and the Committee, the Company and its officers and directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. All action taken and all interpretations and determinations made by the Board or the Committee in good faith shall be final and binding upon all Participants, all other employees of the Company, the Company and all other interested persons. No member of the Board or the Committee nor any officer or employee of the Company acting on behalf of the Board or the Committee, shall be personally liable for any action, determination or interpretation taken or made in good faith with respect to the Program or purchase rights granted thereunder, and all members of the Board or the Committee and each and any officer or employee of the Company acting on their behalf shall be fully indemnified and protected by the Company in respect of any such action, determination or interpretation.

4.5 Amendment and Termination of the Program. The Board may amend the Program at any time, provided that the stockholder approval shall be obtained for any amendment that (a) increases the total number of shares of Common Stock that may be sold under the Program (except for adjustments pursuant to Section 3.2 of the Program), (b) materially modifies the requirements as to eligibility for participation in the Program, (c) materially increases the benefits accruing the Participants under the Program or (d) extends the ten-year term of the Program. The Program may also be discontinued or terminated by the Board, in whole or in part, at any time. Notwithstanding the foregoing, no amendment, discontinuance or termination of the Program, without the consent of any persons affected thereby, shall alter or impair any rights or obligations created prior to such amendment, discontinuance or termination.

4.6. No Agreement to Employ. Nothing in the Program, Loan Request Form, Loan Agreement, Pledge Agreement or Notes shall confer upon any individual any right to continue in the employ of the Company for any specified period of time or interfere with the right of the Company to terminate such employment at any time.

4.7. Rights Personal to Key Employee. Any rights provided to a Participant under the Program shall be personal to such Participant, shall not be transferable (except by will or pursuant to the laws of descent or distribution) and shall be exercisable, during his lifetime, only by him or her.

4.8 Governing Law. The Plan and all determinations made and actions taken pursuant hereto, to the extent not otherwise governed by the Code or the securities laws of the United States, shall be governed by the law of the State of Delaware and construed accordingly.

4.9 Stockholder Approval; Term of Program. This Program was adopted by the Board on March 18, 1992 and amended on March 17, 1999, subject to the approval of the Amendment by the stockholders of the Company. Any Loan Agreement relating to shares subject to the Amendment, prior to the date of stockholder approval of the Amendment, shall be made subject to such approval. Shares of Common Stock may be sold under the Program for a period ending March 17, 2009, unless the Program is sooner terminated as provided for in section 4.5 herein."

SUBSIDIARIES OF THE COMPANY

Name of Subsidiary	Jurisdiction of Incorporation
Aiken Regional Medical Centers, Inc.	South Carolina
The Alliance for Creative Development, Inc.	Pennsylvania
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
Bluegrass Regional Cancer Center, L.L.P.	Kentucky
The BridgeWay, Inc.	Arkansas
Chalmette Medical Center, Inc.	Louisiana
Children's Hospital of McAllen, Inc.	Texas
Children's Reach, L.L.C.	Pennsylvania

Choate Health Management, Inc.	Massachusetts
Choate Mental Health Center, Inc.	Massachusetts
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.	Delaware
Inland Valley Regional Medical Center, Inc.	California
Internal Medicine Associates of Doctors' Hospital, Inc.	Louisiana
La Amistad Residential Treatment Center, Inc.	Florida
Laredo Holdings, Inc.	Delaware
Laredo Regional, Inc.	Delaware
Laredo Regional Medical Center, L.P.	Delaware

Madison RadiationOncology Associates, L.L.C.	Indiana
Manatee Memorial Hospital, L.P.	Delaware
McAllen Holdings, Inc.	Texas
McAllen Medical Center, Inc.	Texas
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
Nevada Radiation Oncology Center-West, L.L.C.	Nevada
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
Radiation Therapy Associates of California, L.L.C.	California
Radiation Therapy Medical Associates of Bakersfield, P.C.	California

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
River Crest Hospital, Inc.	Texas
River Oaks, Inc.	Louisiana
River Parishes Internal Medicine, Inc.	Louisiana
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 Surgery Center of Midwest City)	Delaware
Surgery Center of Ponca City, L.P. (d/b/a Outpatient Surgical Center of Ponca City)	Delaware
Surgery Center of Springfield, L.P. (d/b/a Surgery Center of Springfield)	Delaware

Surgery Center of Waltham, Limited Partnership (d/b/a Surgery Center of Waltham)	Massachusetts
Tonopah Health Services, Inc.	Nevada
Turning Point Care Center, Inc. (d/b/a Turning Point Hospital)	Georgia
Two Rivers Psychiatric Hospital, Inc.	Delaware
UHS Advisory, 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 of Hampton, Inc.	New Jersey
UHS of Hampton Learning Center, Inc.	New Jersey
UHS of Hartgrove, Inc.	Illinois
UHS Holding Company, Inc.	Nevada
UHS International Limited	United Kingdom

UHS of Lakeshore, Inc.	Illinois
UHS Las Vegas Properties, Inc.	Nevada
UHS Leasing Company, Limited	United Kingdom
UHS London Limited	United Kingdom
UHS Midwest Center for Youth and Families, Inc.	Indiana
UHSMS, Inc.	Delaware
UHS of Manatee, Inc.	Florida
UHS of New Orleans, Inc. (d/b/a Chalmette Hospital and River Parishes Hospital)	Louisiana
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 of Riveredge, Inc.	Illinois
UHS Receivables Corp.	Delaware
UHS Recovery Foundation, Inc.	Pennsylvania
UHS of River Parishes, Inc.	Louisiana
UHS of Timberlawn, Inc.	Texas
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
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).

ARTHUR ANDERSEN LLP

Philadelphia, PA
March 29, 1999

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