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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, 2001
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, 2002, was 3,848,886, 55,626,495, 387,848 and 38,989, respectively.

The aggregate market value of voting stock held by non-affiliates at January 31, 2002 $2,291,664,987. (For the purpose of this calculation, it was assumed that Class A, Class C, and Class D Common Stock, which are not traded but are convertible share-for-share into Class B Common Stock, have the same market value as Class B Common Stock.)

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's definitive proxy statement for its 2002 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2001 (incorporated by reference under Part III).

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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 73 hospitals, consisting of 35 acute care hospitals and 38 behavioral health centers located in Arkansas, California, Delaware, the District of Columbia, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Massachusetts, Michigan, Mississippi, Missouri, Nevada, New Jersey, Oklahoma, Pennsylvania, Puerto Rico, South Carolina, Tennessee, Texas, Utah, Washington and France. The Company, as part of its Ambulatory Treatment Centers Division, owns outright, or in partnership with physicians, and operates or manages 23 surgery and radiation oncology centers located in 12 states.

Services provided by the Company's hospitals include general surgery, internal medicine, obstetrics, emergency room care, radiology, oncology, diagnostic care, coronary care, pediatric services and 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 2001, the Company proceeded with its development of new facilities and consummated a number of acquisitions.

In January 2001, the Company acquired the assets of the following facilities: (i) Rancho Springs Medical Center, an acute care hospital located in Murrieta, California; (ii) Westwood Lodge Hospital and Pembroke Hospital, two behavioral health care facilities located in Boston, Massachusetts, and; (iii) Hospital San Juan Capestrano, a behavioral health care facility located in Puerto Rico.

In February 2001, the Company acquired the assets of the McAllen Heart Hospital, a specialty hospital located in McAllen, Texas. Upon acquisition, this facility began operating under the same license as an integrated department of McAllen Medical Center.

In March 2001, the Company acquired an 80% interest in an operating company that as of December 31, 2001, owned nine hospitals located in France.

In March 2001, the Company acquired the assets of Surgical Arts Surgery Center, an ambulatory surgery center located in Reno, Nevada.

In September 2001, the Company acquired the assets of St. Lukes's Surgicenter, a multi-specialty center located in Hammond, Louisiana.

In December 2001, the Company acquired the assets (ownership effective January 1, 2002) of Central Montgomery Medical Center, an acute care hospital located in Lansdale, Pennsylvania.

Also in December 2001, the Company acquired the ownership interest (ownership effective January 1, 2002) of Lancaster Hospital Corporation, which owns and operates Lancaster Community Hospital, an acute care hospital in Lancaster, California.

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.

	2001	2000	1999	1998	1997
Average Licensed Beds:					
Acute Care Hospitals.....	6,234	4,980	4,806	4,696	3,389
Behavioral Health Centers..	3,732	2,612	1,976	1,782	1,777
Average Available Beds(1):					
Acute Care Hospitals.....	5,351	4,220	4,099	3,985	2,951
Behavioral Health Centers..	3,588	2,552	1,961	1,767	1,762
Admissions:					
Acute Care Hospitals.....	285,222	214,771	204,538	187,833	128,020
Behavioral Health Centers..	78,688	49,971	37,810	32,400	28,350
Average Length of Stay (Days):					
Acute Care Hospitals.....	4.7	4.7	4.7	4.7	4.8
Behavioral Health Centers..	12.1	12.2	11.8	11.3	11.9
Patient Days(2):					
Acute Care Hospitals.....	1,328,609	1,017,646	963,842	884,966	616,965
Behavioral Health Centers..	950,236	608,423	444,632	365,935	336,850
Occupancy Rate--Licensed Beds(3):					
Acute Care Hospitals.....	58%	56%	55%	52%	50%
Behavioral Health Centers..	70%	64%	62%	56%	52%
Occupancy Rate--Available Beds(3):					
Acute Care Hospitals.....	68%	66%	64%	61%	57%
Behavioral Health Centers..	73%	65%	62%	57%	52%

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Note: Included in the Acute Care Hospitals in 2001 is the data for the nine hospitals located in France owned by an operating company in which the Company purchased an 80% ownership interest during 2001.

(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 11% in 2001, and 12% in 2000 and 13% in 1999 of the Company's consolidated net revenues and 17% in 2001, 21% in 2000 and 25% in 1999 of the Company's consolidated earnings before depreciation & amortization, interest, provision for insurance settlements, facility closure costs, losses on foreign exchange & derivative transactions, income taxes and extraordinary charge from early extinguishment of debt, net of taxes (after deducting an allocation of corporate overhead) ("EBITDA"). The Company has a majority ownership interest in three acute care hospitals in the Las Vegas, Nevada market. These three hospitals, Valley Hospital Medical Center, Summerlin Hospital Medical Center and Desert Springs Hospital, on a combined basis, contributed 16% in 2001, 18% in 2000 and 18% in 1999 of the Company's consolidated net revenues and 13% in 2001, 14% in 2000 and 10% in 1999 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, 2001 since their respective dates of acquisition by the Company from third party sources, including the additional Medicaid reimbursements received at five of the Company's acute care facilities located in Texas and one in South Carolina totaling $32.6 in 2001, $28.9 in 2000, $37.0 million in 1999, $36.5 million in 1998, and $33.4 million in 1997, and from all other sources during the five years ended December 31, 2001.

	PERCENTAGE OF NET PATIENT REVENUES				
	2001	2000	1999	1998	1997
Third Party Payors:					
Medicare	31.5%	32.3%	33.5%	34.3%	35.6%
Medicaid	10.5%	11.5%	12.6%	11.3%	14.5%
Managed Care (HMOs and PPOs)	36.9%	34.5%	31.5%	27.2%	19.1%
Other Sources	21.1%	21.7%	22.4%	27.2%	30.8%
Total	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 formulas. Our general acute care hospitals are subject to a prospective payment system ("PPS"). For inpatient services, PPS pays hospitals a predetermined amount per diagnostic related group ("DRG") based upon a hospital's location and the patient's diagnosis. Beginning August 1, 2000, under a new outpatient prospective payment system ("OPPS") mandated by the Balanced Budget Act of 1997, both general acute and behavioral health hospitals' outpatient services are paid a predetermined amount per Ambulatory Payment Classification based upon a hospital's location and the procedures performed. The Medicare, Medicaid and SCHIP Balanced Budget Refinement Act of 1999 ("BBRA of 1999") included "transitional corridor payments" through fiscal year 2003, which provide some financial relief for any hospital that generally incurs a reduction to its Medicare outpatient reimbursement under the new OPPS.

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

On August 30, 1991, the CMS issued final Medicare regulations establishing a PPS for inpatient hospital capital-related costs. These regulations apply to hospitals which are reimbursed based upon the prospective payment system and took effect for cost report years beginning on or after October 1, 1991. For most of the

Company's hospitals, the new methodology began on January 1, 1992. In 2001, the tenth year of the phase-in, most of the Company's hospitals are paid by the Medicare program based on the blend of the federal capital rate and the rate specific to each hospital (three hospitals still receive hold harmless payments, which are described below.)

The regulations provide for the use of a 10-year transition period in which a blend of the old and new capital payment provisions is utilized. One of two methodologies applies during the 10-year transition period. If the hospital's hospital-specific capital rate exceeds the federal capital rate, the hospital is paid per discharge on the basis of a "hold harmless" methodology, which is the higher of a blend of a portion of old capital costs and an amount for new capital costs based on a proportion of the federal capital rate, or 100% of the federal capital rate. Alternatively, with limited exceptions, if the hospital-specific rate is below the federal capital rate, the hospital receives payments based upon a "fully prospective" methodology, which is a blend of the hospital's hospital-specific capital rate and the federal capital rate. Each hospital's hospital-specific rate was determined based upon allowable capital costs incurred during the "base year", which, for most of the Company's hospitals, was the year ended December 31, 1990. Updated amounts and factors necessary to determine PPS rates for Medicare hospital inpatient services for operating costs and capital related costs are published annually.

In addition to the trends described above that continue to have an impact on the operating results, there are a number of other more general factors affecting our business. BBA-97 called for the government to trim the growth of federal spending on Medicare by $115 billion and on Medicaid by $13 billion over the following years. The act also called for reductions in the future rate of increases to payments made to hospitals and reduced the amount of reimbursement for outpatient services, bad debt expense and capital costs. Some of these reductions were reversed with the passage on December 15, 2000 of the Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 ("BIPA") which, among other things, increased Medicare and Medicaid payments to healthcare providers by $35 billion over 5 years with approximately $12 billion of this amount targeted for hospitals and $11 billion for managed care payors. These increased reimbursements to hospitals pursuant to the terms of BIPA commenced in April, 2001. BBA-97 established the annual update for Medicare at market basket minus 1.1% in both fiscal years 2001 (October 1, 2000 through September 30, 2001) and 2002 and BIPA revised the update at the full market basket in fiscal year 2001 and market basket minus .55% in fiscal years 2002 and 2003. Additionally, BBA-97 reduced reimbursement to hospitals for Medicare bad debts to 55% and BIPA increased the reimbursement to 70%, with an effective date for the Company of January 1, 2001. It is possible that future federal budgets will contain certain further reductions or increases in the rate of increase of Medicare and Medicaid spending.

The Company can provide no assurances that the reductions in the PPS update, and other changes required by BBA-97, will not adversely affect the Company's operations. However, within certain limits, a hospital can manage its costs, and, to the extent this is done effectively, a hospital may benefit from the DRG system. However, many hospital operating costs are incurred in order to satisfy licensing laws, standards of the Joint Commission on the Accreditation of Healthcare Organizations ("JCAHO") and quality of care concerns. In addition, hospital costs are affected by the level of patient acuity, occupancy rates and local physician practice patterns, including length of stay, judgments and number and type of tests and procedures ordered. A hospital's ability to control or influence these factors which affect costs is, in many cases, limited.

In addition to Federal health reform efforts, several states have adopted or are considering healthcare reform legislation. Several states are considering 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 501 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 healthcare delivery system based on managed care principles. The program is now known as the STAR Program, which is short for State of Texas Access Reform. Since 1995,

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

Upon meeting certain conditions, and serving a disproportionately high share of Texas' and South Carolina's low income patients, five of the Company's facilities located in Texas and one facility located in South Carolina became eligible and received additional reimbursement from each state's disproportionate share hospital fund. Included in our financial results was an aggregate of $32.6 million in 2001, $28.9 million in 2000, $37.0 million in 1999, $36.5 million in 1998 and $33.4 million in 1997 received pursuant to the terms of these programs. The Texas and South Carolina programs have been renewed for the 2002 fiscal year and the Company expects its reimbursements, as scheduled pursuant to the terms of these programs, to increase by approximately $4.2 million annually as compared to the 2001 fiscal year. Failure to renew these programs, which are scheduled to terminate in the third quarter of 2002, or reduction in reimbursements, could have a material adverse effect on our future results of operations.

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

The federal physician 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 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 (Stark I). On January 4, 2001, HCFA published a portion of the final rules regarding physician self referrals for the ten other designated health services (Stark II). The remaining portions of the final rule for Stark II are still forthcoming. 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.

The federal anti-kickback statute (codified in 42 U.S.C. (S) 1320a-7b(b)) prohibits individuals and entities from knowingly and willfully soliciting, receiving, offering or paying any remuneration to other individuals and entities (directly or indirectly, overtly or covertly, in cash or in kind):

1. in return for referring an individual to a person for the furnishing or arranging for the furnishing of any item or service for which payment may be made under a federal or state health care program; or

2. in return for purchasing, leasing, ordering or arranging for or recommending purchasing, leasing, or ordering any good, facility, service or item for which payment may be made under a federal or state health care program.

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. Safe harbors include protection for certain limited investment interests, 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 healthcare programs.

Many states have also enacted similar illegal remuneration statutes that apply to healthcare services reimbursed by private insurance, not just those reimbursed by a federal or state health care program. In many instances, the state statutes provide that any arrangement falling in a federal safe harbor will be immune from scrutiny under the state statutes.

We do not anticipate that the Stark provisions, the anti-kickback statute or similar state law provisions will have material adverse effects on our operations.

As further discussed under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Year Ended December 31, 2001 Compared to Years Ended December 31, 2000 and 1999 -- Health Insurance Portability and Accountability Act of 1996", we are subject to the provisions of the HIPAA and have begun preliminary planning for implementation of the necessary changes required pursuant to the terms of HIPAA. However, we cannot currently estimate the implementation cost of the HIPAA related modifications and consequently can give no assurances that issues related to HIPAA will not have a material adverse effect on our financial condition or results of operations.

Several states, including Florida and Nevada, have passed legislation which limits physician ownership in medical facilities providing imaging services, rehabilitation services, laboratory testing, physical therapy and other services. This legislation is not expected to significantly affect our operations. Many states have laws and regulations which prohibit payments for referral of patients and fee-splitting with physicians. We do 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. Our 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 our eligible hospitals have been accredited by the JCAHO. The

JCAHO reviews each hospital's accreditation once every three years. The review period for each state's licensing body varies, but generally ranges from once a year to once every three years.

The Social Security Act and regulations thereunder contain numerous provisions which affect the scope of Medicare coverage and the basis for reimbursement of Medicare providers. Among other things, this law S-18 provides that in states which have executed an agreement with the Secretary of HHS, 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 our 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. We have not experienced and do 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 we operate. 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. We are unable to predict the impact of these changes upon our 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. We have contracted with PROs in each state where we do business as to the scope of such functions.

Our 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 (42 U.S.C. (S) 6992). 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 up to $50,000 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. We believe that our disposal of such wastes is in material compliance with all state and federal laws.

Health Insurance Portability and Accountability Act

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

(i) Establishing standardized code sets for financial and clinical electronic data interchange ("EDI") transactions to enable more efficient flow of information. Currently there is no common standard for the

transfer of information between the constituents in healthcare and therefore providers have had to conform to different standards utilized by each party with which they interact. The goal of HIPAA is to create one common national standard for EDI and once the HIPAA regulations take effect, payors will be required to accept the national standard employed by providers. The final regulations establishing electronic data transmission standards that all healthcare providers must use when submitting or receiving certain healthcare transactions electronically were published in August, 2000 and compliance with these regulations is required by October, 2002.

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

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

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

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 30,300 employees at December 31, 2001, of whom approximately 21,200 were employed full-time.

Approximately 1,678 of the Company's employees at six of its hospitals are unionized. At Valley Hospital, unionized employees belong to the Culinary Workers and Bartenders Union, the International Union of Operating Engineers and the Service Employees International Union. Registered nurses at Auburn Regional Medical Center located in Washington state, are represented by the United Staff Nurses Union, the technical employees are represented by the United Food and Commercial Workers, and the service employees are represented by the Service Employees International Union. At The George Washington University Hospital, unionized employees are represented by the Service Employees International Union and the Hospital Police Association. Nurses at Desert Springs Hospital are represented by the Service Employees International Union. Registered Nurses, Licensed Practical Nurses, certain technicians and therapists, pharmacy assistants, and some clerical 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

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

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

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

Relationship with Universal Health Realty Income Trust

At December 31, 2001, the Company held approximately 6.6% of the outstanding shares of Universal Health Realty Income Trust (the "Trust") and has an option to purchase shares of the Trust at fair market value to maintain a minimum 5% interest. The Company serves as advisor to the Trust under an annually renewable advisory agreement. Pursuant to the terms of this advisory agreement, the Company conducts the Trust's day to day affairs, provides administrative services and presents investment opportunities. In addition, certain officers and directors of the Company are also officers and/or directors of the Trust. Management believes that it has the ability to exercise significant influence over the Trust, therefore the Company accounts for its investment in the Trust using the equity method of accounting. The Company's pre-tax share of income from the Trust was $1.3 million for the year ended December 31, 2001, $1.2 million for the year ended December 31, 2000 and $1.1 million for the year ended December 31, 1999, and is included in net revenues in the Company's consolidated statements of income. The carrying value of this investment was $9.0 million at both December 31, 2001 and 2000 and is included in other assets in the Company's consolidated balance sheets. The market value of this investment was $18.0 million at December 31, 2001 and $15.1 million at December 31, 2000.

As of December 31, 2001, the Company leased six hospital facilities from the Trust with terms expiring in 2003 through 2006. These leases contain up to five 5-year renewal options. During 2001, the Company exercised the five-year renewal option on an acute care hospital leased from the Trust which was scheduled to expire in 2001. The lease on this facility was renewed at the same lease rate and term as the initial lease. Future minimum lease payments to the Trust are included in Note 7 to Consolidated Financial Statements. Total rent expense under these operating leases was $16.5 million in 2001, $17.1 million in 2000, and $16.6 million in 1999. 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 from the Trust of $1.3 million in both 2001 and 2000 and $1.2 million in 1999 for investment and administrative services provided under a contractual agreement which is included in net revenues in the Company's consolidated statements of income.

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 (64)	Director, Chairman of the Board, President and Chief Executive Officer
Kirk E. Gorman (51)	Senior Vice President and Chief Financial Officer
O. Edwin French (55)	Senior Vice President
Steve G. Filton (44)	Vice President, Controller and Secretary
Debra Osteen (46)	Vice President
Richard C. Wright (54)	Vice President

Mr. Alan B. Miller has been Chairman of the Board, President and Chief Executive Officer of the Company since its inception. Prior thereto, he was President, Chairman of the Board and Chief Executive Officer of American Medicorp, Inc. He currently serves as Chairman of the Board, Chief Executive Officer and Trustee of the Trust. Mr. Miller also serves as a Director of Penn Mutual Life Insurance Company, CDI Corp. (provides staffing services and placements) and Broadlane, Inc. (an e-commerce marketplace for healthcare supplies, equipment and services).

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. He currently serves as President, Chief Financial Officer, Secretary and Trustee of the Trust. Mr. Gorman also serves as a Director of VIASYS Healthcare, Inc. (a medical technology products company) and Physician's Dialysis, Inc. (provides hospital based dialysis services).

Mr. Wright was elected Vice President of the Company in May 1986. He has served in various capacities with the Company since 1978 and currently heads the Development function.

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

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

Mr. French joined the Company in October 2001, as Senior Vice President, responsible for the Acute Care Hospital Division. He had served as President and Chief Operating Officer of Physician Reliance Network from 1997 to 2000, as Senior Vice President of American Medical International from 1992 to 1995, as Executive Vice President of Samaritan Health Systems of Phoenix from 1991 to 1992 and as Senior Vice President of Methodist Health Systems, Inc. in Memphis from 1985 to 1991.

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
Central Montgomery Medical Center	Lansdale, Pennsylvania	150	Owned
Chalmette Medical Center(1)	Chalmette, Louisiana	195	Leased
Desert Springs Hospital(2)	Las Vegas, Nevada	351	Owned
Doctors' Hospital of Laredo	Laredo, Texas	180	Owned
Doctors' Hospital of Shreveport(3)	Shreveport, Louisiana	136	Leased
Edinburg Regional Medical Center	Edinburg, Texas	169	Owned
Fort Duncan Medical Center	Eagle Pass, Texas	77	Owned
The George Washington University Hospital(4)	Washington, D.C.	501	Owned
Hospital San Francisco	Rio Piedras, Puerto Rico	160	Owned
Hospital San Pablo	Bayamon, Puerto Rico	430	Owned
Hospital San Pablo del Este	Fajardo, Puerto Rico	180	Owned
Inland Valley Regional Medical Center(5)	Wildomar, California	80	Leased
Lancaster Community Hospital	Lancaster, California	117	Owned
Manatee Memorial Hospital	Bradenton, Florida	491	Owned
McAllen Medical Center(6)	McAllen, Texas	633	Leased
Northern Nevada Medical Center(4)	Sparks, Nevada	100	Owned
Northwest Texas Healthcare System	Amarillo, Texas	357	Owned
Rancho Springs Medical Center	Murrieta, California	96	Owned
River Parishes Hospitals	LaPlace and Chalmette, Louisiana	106	Owned
St. Mary's Regional Medical Center	Enid, Oklahoma	277	Owned
Summerlin Hospital Medical Center(2)	Las Vegas, Nevada	166	Owned
Valley Hospital Medical Center(2)	Las Vegas, Nevada	400	Owned
Wellington Regional Medical Center(5)	West Palm Beach, Florida	120	Leased

Medi-Partenaires (Paris/Bordeaux)

Name of Facility	Location	Number of Beds	Ownership Interest
Clinique Ambroise Pare	Toulouse, France	204	Owned
Clinique Richelieu	Saintes, France	82	Owned
Clinique Bercy	Charenton le Pont, France	100	Owned
Clinique Villette	Dunkerque, France	123	Owned
Clinique Pasteur	Bergerac, France	72	Owned
Clinique Bon Secours	Le Puy en Velay, France	101	Owned
Clinique Aressy	Aressy, France	179	Owned
Clinique Saint-Augustin	Bordeaux, France	159	Owned
Clinique Saint-Jean	Montpellier, France	118	Owned

Behavioral Health Centers

Name of Facility	Location	Number of Beds	Ownership Interest
Anchor Hospital	Atlanta, Georgia	74	Owned
The Arbour Hospital	Boston, Massachusetts	118	Owned
The Bridgeway(5)	North Little Rock, Arkansas	70	Leased
The Carolina Center for Behavioral Health	Greer, South Carolina	66	Owned
Clarion Psychiatric Center	Clarion, Pennsylvania	70	Owned
Del Amo Hospital	Torrance, California	166	Owned
Fairmount Behavioral Health System	Philadelphia, Pennsylvania	169	Owned
Forest View Hospital	Grand Rapids, Michigan	62	Owned
Fuller Memorial Hospital	South Attleboro, Massachusetts	82	Owned
Glen Oaks Hospital	Greenville, Texas	54	Owned
Hampton Hospital	Westhampton, New Jersey	100	Owned
Hartgrove Hospital	Chicago, Illinois	119	Owned
The Horsham Clinic	Ambler, Pennsylvania	146	Owned
Hospital San Juan Capestrano	Rio Piedras, Puerto Rico	108	Owned
HRI Hospital	Brookline, Massachusetts	68	Owned
KeyStone Center(7)	Wallingford, Pennsylvania	114	Owned
La Amistad Residential Treatment Center	Maitland, Florida	56	Owned
Lakeside Behavioral Health System	Memphis, Tennessee	204	Owned
Laurel Heights Hospital	Atlanta, Georgia	102	Owned
The Meadows Psychiatric Center	Centre Hall, Pennsylvania	101	Owned
Meridell Achievement Center	Austin, Texas	114	Owned
The Midwest Center for Youth and Families	Kouts, Illinois	50	Owned
Parkwood Behavioral Health System	Olive Branch, Mississippi	106	Owned
The Pavilion	Champaign, Illinois	46	Owned
Peachford Behavioral Health System of Atlanta	Atlanta, Georgia	184	Owned
Pembroke Hospital	Pembroke, Massachusetts	107	Owned
Provo Canyon School	Provo, Utah	211	Owned
Ridge Behavioral Health System	Lexington, Kentucky	110	Owned
River Crest Hospital	San Angelo, Texas	80	Owned
River Oaks Hospital	New Orleans, Louisiana	126	Owned
Rockford Center	Newark, Delaware	74	Owned
Roxbury(7)	Shippensburg, Pennsylvania	53	Owned
St. Louis Behavioral Medicine Institute	St. Louis, Missouri	--	Owned
Talbott Recovery Campus	Atlanta, Georgia	--	Owned
Timberlawn Mental Health System	Dallas, Texas	124	Owned
Turning Point Care Center(7)	Moultrie, Georgia	59	Owned
Two Rivers Psychiatric Hospital	Kansas City, Missouri	80	Owned
Westwood Lodge Hospital	Westwood, Massachusetts	126	Owned

Ambulatory Surgery Centers

Name of Facility(8)	Location
Arkansas Surgery Center of Fayetteville	Fayetteville, Arkansas
Brownsville Surgicare	Brownsville, Texas
Goldring Surgical and Diagnostic Center	Las Vegas, Nevada
Hope Square Surgery Center	Rancho Mirage, California
Northwest Texas Surgery Center	Amarillo, Texas
Outpatient Surgical Center of Ponca City	Ponca City, Oklahoma

Name of Facility(8)	Location
Plaza Surgery Center	Las Vegas, Nevada
St. George Surgical Center	St. George, Utah
St. Lukes's Surgicenter	Hammond, Louisiana
Surgery Center of Littleton	Littleton, Colorado
Surgery Center of Midwest City	Midwest City, Oklahoma
Surgery Center of Springfield	Springfield, Missouri
Surgical Arts Surgery Center	Reno, Nevada
Surgical Center of New Albany	New Albany, Indiana

Radiation Oncology Centers

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

Specialized Women's Health Center

Name of Facility	Location
Renaissance Women's Center of Edmond(9)	Edmond, Oklahoma

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(1) Includes Chalmette Medical Center, which is a 118-bed medical/surgical facility and The Virtue Street Pavilion, a 77-bed facility consisting of a physical rehabilitation unit, skilled nursing and inpatient behavioral health services. The real property of both facilities is leased from the Trust.

(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 Triad'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) Real property leased from the Trust.

(6) Real property of McAllen Medical Center is leased from the Trust. During 2000, the Company purchased the assets of an 80-bed non-acute care facility located in McAllen, Texas. Although the real property of the non-acute facility is not leased from the Trust, the license for this facility is included in McAllen Medical Center's license.

(7) Addictive disease facility.

(8) 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.

(9) Membership interest in limited liability company.

(10) Majority interest in a limited liability partnership.

(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 were $29.4 million in 2001, $22.5 million in 2000 and $24.0 million in 1999.

ITEM 3. Legal Proceedings

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

During 1999, the Company decided to close and divest one of its specialized women's health centers and as a result, the Company recorded a $5.3 million charge to reduce the carrying value of the facility to its estimated realizable value of approximately $9 million, based on an independent appraisal. A jury verdict unfavorable to the Company was rendered during the fourth quarter of 2000 with respect to litigation regarding the closing of this facility. Accordingly, during the fourth quarter of 2000, the Company recognized a charge of $7.7 million to reflect the amount of the jury verdict and a reserve for future legal costs and in February 2001, this unprofitable facility was closed. During 2001, an appellate court issued an opinion affirming the jury verdict and during the first quarter of 2002, the Company filed a petition for review by the state supreme court.

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, 2001 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				
	2001	2000	1999	1998	1997
Summary of Operations (in thousands)					
Net revenues	$ 2,840,491	$ 2,242,444	$ 2,042,380	$ 1,874,487	$ 1,442,677
Net income	$ 99,742	$ 93,362	$ 77,775	$ 79,558	$ 67,276
Net margin	3.5%	4.2%	3.8%	4.2%	4.7%
Return on average equity	12.8%	13.7%	12.1%	13.1%	13.5%
Financial Data (in thousands)					
Cash provided by operating activities	$ 312,187	$ 182,454	$ 175,557	$ 151,684	$ 174,170
Capital expenditures(1)	$ 160,748	$ 115,751	$ 68,695	$ 96,808	$ 132,258
Total assets	$ 2,114,584	$ 1,742,377	$ 1,497,973	$ 1,448,095	$ 1,085,349
Long-term borrowings	$ 718,830	$ 548,064	$ 419,203	$ 418,188	$ 272,466
Common stockholders' equity	$ 807,900	$ 716,574	$ 641,611	$ 627,007	$ 526,607
Percentage of total debt to total capitalization	47%	43%	40%	40%	35%
Operating Data--Acute Care Hospitals(2)					
Average licensed beds	6,234	4,980	4,806	4,696	3,389
Average available beds	5,351	4,220	4,099	3,985	2,951
Hospital admissions	285,222	214,771	204,538	187,833	128,020
Average length of patient stay	4.7	4.7	4.7	4.7	4.8
Patient days	1,328,609	1,017,646	963,842	884,966	616,965
Occupancy rate for licensed beds	58%	56%	55%	52%	50%
Occupancy rate for available beds	68%	66%	64%	61%	57%
Operating Data--Behavioral Health Facilities					
Average licensed beds	3,732	2,612	1,976	1,782	1,777
Average available beds	3,588	2,552	1,961	1,767	1,762
Hospital admissions	78,688	49,971	37,810	32,400	28,350
Average length of patient stay	12.1	12.2	11.8	11.3	11.9
Patient days	950,236	608,423	444,632	365,935	336,850
Occupancy rate for licensed beds	70%	64%	62%	56%	52%
Occupancy rate for available beds	73%	65%	62%	57%	52%
Per Share Data					
Net income--basic(3)	$ 1.67	$ 1.55	$ 1.24	$ 1.23	$ 1.04
Net income--diluted(3)	$ 1.60	$ 1.50	$ 1.22	$ 1.19	$ 1.02
Other Information (in thousands)					
Weighted average number of shares outstanding--basic(3)	59,874	60,220	62,834	65,022	64,642
Weighted average number of shares and share equivalents outstanding--diluted(3)	67,220	64,820	63,980	66,586	66,196
Common Stock Performance					
Market price of common stock					
High--Low, by quarter(4)					
1st	$50.69--$38.88	$24.50--$18.25	$26.50--$18.94	$29.06--$23.53	$17.31--$13.94
2nd	$46.75--$37.82	$35.03--$24.50	$27.44--$19.75	$29.81--$26.50	$20.25--$15.81
3rd	$52.60--$42.65	$42.81--$31.91	$23.69--$11.84	$29.25--$19.38	$23.53--$19.53
4th	$48.60--$38.25	$55.88--$38.63	$18.25--$12.00	$27.16--$20.22	$25.19--$20.34

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

(2) Includes data for nine hospitals located in France owned by an operating company in which the Company purchased an 80% ownership during 2001.

(3) In April 2001, the Company declared a two-for-one stock split in the form of a 100% stock dividend which was paid in June 2001. 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.

(4) 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 June 2001). 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, 2002, were as follows:

Class A Common	6
Class B Common	442
Class C Common	5
Class D Common	200

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

Forward-Looking Statements

The matters discussed in this report as well as the news releases issued from time to time by the Company include certain statements containing the words "believes", "anticipates", "intends", "expects" and words of similar import, which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the following: that the majority of the Company's revenues are produced by a small number of its total facilities; possible changes in the levels and terms of reimbursement by government programs, including Medicare or Medicaid or other third party payors; industry capacity; demographic changes; existing laws and government regulations and changes in or failure to comply with laws and governmental regulations; the ability to enter into managed care provider agreements on acceptable terms; liability and other claims asserted against the Company; competition; the loss of significant customers; technological and pharmaceutical improvements that increase the cost of providing, or reduce the demand for healthcare; the ability to attract and retain qualified personnel, including physicians; the ability of the Company to successfully integrate its recent acquisitions; the Company's ability to finance growth on favorable terms; and, other factors referenced in the Company's 2001 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 27% to $2.8 billion in 2001 as compared to 2000 and 10% to $2.2 billion in 2000 as compared to 1999. The $600 million increase in net revenues during 2001 as compared to 2000 resulted from: (i) a $276 million or 13% increase in net revenues generated at acute care and behavioral health care facilities owned during both years, and; (ii) $324 million of net revenues generated at twenty-eight acute care and behavioral health care facilities acquired in the U.S and France since the third quarter of 2000 (excludes revenues generated at these facilities one year after acquisition).

The $200 million increase in net revenues during 2000 as compared to 1999 was due primarily to: (i) a $104 million or 5% increase in net revenues generated at acute care and behavioral health care facilities owned during both years, and; (ii) $88 million of net revenues generated at two acute care and twelve behavioral health care facilities acquired during the third quarter of 2000.

Operating income (defined as net revenues less salaries, wages & benefits, other operating expenses, supply expense and provision for doubtful accounts) increased 23% to $442 million in 2001 from $359 million in 2000. In 2000, operating income increased 13% to $359 million in 2000 from $319 million in 1999. Overall operating margins (defined as operating income divided by net revenues) were 15.6% in 2001, 16.0% in 2000 and 15.6% in 1999. The factors causing the fluctuations in the Company's overall operating margins during the last three years are discussed below.

Acute Care Services

Net revenues from the Company's acute care hospitals and ambulatory treatment centers accounted for 81%, 84% and 86% of consolidated net revenues in 2001, 2000 and 1999, respectively. Net revenues at the Company's acute care facilities owned in both 2001 and 2000 increased 14% in 2001 as compared to 2000 as admissions and patient days at these facilities increased 5% and 6%, respectively. The average length of stay at these facilities increased to 4.8 days in 2001 as compared to 4.7 days in 2000. Net revenues at the Company's acute care facilities owned in both 2000 and 1999 increased 5% in 2000 as compared to 1999 as admissions and patient days each increased 3% in 2000 as compared to 1999. The average length of stay remained unchanged at 4.7 days in 2000 and 1999.

In addition to the increase in inpatient volumes, the Company's same facility net revenues were favorably impacted by an increase in prices charged to private payors including health maintenance organizations and preferred provider organizations as well as an increase in Medicare reimbursements which commenced on April 1, 2001. Net revenue per adjusted admission (adjusted for outpatient activity) at the Company's acute care facilities owned during both 2001 and 2000 increased 8% in 2001 as compared to 2000 and net revenue per adjusted patient day at these facilities increased 7% in 2001 over 2000. Included in the same facility acute care financial results and patient statistical data are the operating results generated at the 60-bed McAllen Heart Hospital which was acquired by the Company in March of 2001. Upon acquisition, the facility began operating under the same license as an integrated department of McAllen Medical Center and therefore the financial and statistical results are not separable.

The Company's facilities have experienced an increase in inpatient acuity and intensity of services as less intensive services shift from an inpatient basis to an outpatient basis. To accommodate the increased utilization of outpatient services, the Company has expanded or redesigned several of its outpatient facilities and services. Gross outpatient revenues at the Company's acute care facilities owned during the last three years increased 22% in 2001 as compared to 2000 and increased 13% in 2000 as compared to 1999 and comprised 26% of the Company's acute care gross patient revenue in each of the last three years. Despite the increase in patient volume at the Company's facilities, inpatient utilization continues to be negatively affected by payor-required, pre-admission authorization and by payor pressure to maximize outpatient and alternative healthcare delivery services for less acutely ill patients. Additionally, the hospital industry in the United States as well as the Company's acute care facilities continue to have significant unused capacity which has created substantial competition for patients. The Company expects the increased competition, admission constraints and payor pressures to continue.

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

At the Company's acute care facilities, operating expenses (salaries, wages and benefits, other operating expenses, supply expense and provision for doubtful accounts) as a percentage of net revenues were 82.2% in 2001, 81.4% in 2000 and 81.6% in 1999. Operating margins (defined as net revenues less operating expenses divided by net revenues) at these facilities were 17.8% in 2001, 18.6% in 2000 and 18.4% in 1999. At the Company's acute care facilities owned in both 2001 and 2000, operating expenses were 82.6% in 2001 and 81.6% in 2000 and operating margins at these facilities were 17.4% in 2001 and 18.4% in 2000. At the Company's acute care facilities owned in both 2000 and 1999, operating expenses were 81.6% in 2000 and 81.8% in 1999 and operating margins at these facilities were 18.4% in 2000 and 18.2% in 1999.

Despite the strong revenue growth experienced at the Company's acute care facilities during 2001 as compared to 2000, operating margins at these facilities were lower in 2001 as compared to the prior year due primarily to increases in salaries, wages and benefits, pharmaceutical expense and insurance expense. Salaries, wages and benefits increased primarily as a result of rising labor rates, particularly in the area of skilled nursing and the increase in pharmaceutical expense was caused primarily by increased utilization of high-cost drugs. The Company experienced an increase in insurance expense on the self-insured retention limits at certain of its subsidiaries caused primarily by unfavorable industry-wide pricing trends for hospital professional and general liability coverage. The Company expects the expense factors mentioned above to continue to pressure future operating margins.

Operating margins at the Company's acute care facilities increased slightly in 2000 as compared to 1999 due primarily to (i) a reduction in salaries, wages and benefits, other operating expenses and supply expense as a percentage of net revenues resulting from increased efforts to control costs, and; (ii) replacement of a capitation contract at the Company's three Las Vegas facilities with a standard per diem contract commencing in January, 2000. These favorable factors were partially offset by an increase the provision for bad debts at the Company's acute care facilities in 2000 as compared to 1999 caused primarily by: (i) an increase in self-pay patients which generally result in a larger portion of uncollectable accounts; (ii) collection delays and difficulties with managed care payors, and; (iii) an increase in gross patient charges instituted during the year which increases the provision for doubtful accounts when accounts become uncollectable.

Behavioral Health Services

Net revenues from the Company's behavioral health care facilities accounted for 19%, 16% and 13% of consolidated net revenues in 2001, 2000 and 1999, respectively. The increases in 2001 as compared to 2000 and 2000 as compared to 1999 were due primarily to the purchase of twelve behavioral health facilities acquired during the third quarter of 2000.

Net revenues at the Company's behavioral health care facilities owned in both 2001 and 2000 increased 7% in 2001 as compared to 2000. Admissions and patient days at these facilities increased 7% and 4%, respectively, in 2001 as compared to 2000 and the average length of stay decreased to 11.9 days in 2001 as compared to 12.2 days in 2000. Contributing to the increase in net revenues at the Company's behavioral health care facilities owned in both 2001 and 2000 was a 2% increase in net revenue per adjusted admission in 2001 as compared to 2000 and a 4% increase in net revenue per adjusted patient day in 2001 as compared to 2000. Net revenues at the Company's behavioral health care facilities owned in both 2000 and 1999 increased 5% in 2000 as compared to 1999. Admissions and patient days at these facilities increased 4% and 3%, respectively, in 2000 as compared to 1999 and the average length of stay decreased to 11.7 days in 2000 as compared to 11.8 days in 1999.

At the Company's behavioral health care facilities, operating expenses (salaries, wages and benefits, other operating expenses, supply expense and provision for doubtful accounts) as a percentage of net revenues were 81.0% in 2001, 81.8% in 2000 and 83.4% in 1999. The Company's behavioral health care division generated operating margins (defined as net revenues less operating expenses divided by net revenues) of 19.0% in 2001, 18.2% in 2000 and 16.6% in 1999. Operating expenses as a percentage of net revenues at the Company's behavioral health care facilities owned in both 2001 and 2000 were 80.3% in 2001 and 81.8% in 2000 while operating margins at theses facilities were 19.7% in 2001 and 18.2% in 2000. Operating expenses as a percentage of net revenues at the Company's behavioral health care facilities owned in both 2000 and 1999 were 81.4% in 2000 and 83.4% in 1999 while operating margins at these facilities were 18.6% in 2000 and 16.6% in 1999.

During the last few years, there has been downsizing in the behavioral health care industry which has created an opportunity for the Company to increase its managed care rates which has contributed to the increased operating margins. In an effort to maintain and potentially further improve the operating margins at its behavioral health care facilities, management of the Company continues to implement cost controls and price increases and has also increased its focus on receivables management.

Other Operating Results

During the fourth quarter of 2001, the Company recorded the following charges: (i) a $40.0 million pre-tax charge to reserve for malpractice expenses that may result from the Company's third party malpractice insurance company (PHICO) that was placed in liquidation in February, 2002 (see General Trends); (ii) a $7.4 million pre-tax loss on derivative transactions resulting from the early termination of interest rate swaps, and; (iii) a $1.0 million after-tax ($1.6 million pre-tax) extraordinary expense resulting from the early redemption of the Company's $135 million 8.75% notes issued in 1995.

During 1999, the Company decided to close and divest one of its specialized women's health centers and as
a result, the Company recorded a $5.3 million charge to reduce the carrying value of the facility to its estimated realizable value of approximately $9 million, based on an independent appraisal. A jury verdict unfavorable to the Company was rendered during the fourth quarter of 2000 with respect to litigation regarding the closing of this facility. Accordingly, during the fourth quarter of 2000, the Company recognized a charge of $7.7 million to reflect the amount of the jury verdict and a reserve for future legal costs and in February of 2001, this unprofitable facility was closed. During 2001, an appellate court issued an opinion affirming the jury verdict and during the first quarter of 2002, the Company filed a petition for review by the state supreme court.

The effective tax rate was 36.2% in 2001, 36.1% in 2000 and 36.7% in 1999.

General Trends

A significant portion of the Company's revenue is derived from fixed payment services, including Medicare and Medicaid which accounted for 42%, 44% and 46% of the Company's net patient revenues during 2001, 2000 and 1999, respectively. Within the statutory framework of the Medicare and Medicaid programs, there are substantial areas subject to administrative rulings, interpretations and discretion which may affect payments made under either or both of such programs and reimbursement is subject to audit and review by third party payors. Management believes that adequate provision has been made for any adjustment that might result therefrom.

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

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

On August 30, 1991, the CMS issued final Medicare regulations establishing a PPS for inpatient hospital capital-related costs. These regulations apply to hospitals which are reimbursed based upon the prospective payment system and took effect for cost report years beginning on or after October 1, 1991. For most of the Company's hospitals, the new methodology began on January 1, 1992. In 2001, the tenth year of the phase-in, most of the Company's hospitals were still being reimbursed by the Medicare program based on the blend of the federal capital rate and the rate specific to each hospital (three hospitals still receive hold harmless payments, which are described below).

The regulations provide for the use of a 10-year transition period during which a blend of the old and new capital payment provision is utilized. One of two methodologies applies during the 10-year transition period. If the hospital's hospital-specific capital rate exceeds the federal capital rate, the hospital is paid per discharge on the basis of a "hold harmless" methodology, which is the higher of a blend of a portion of old capital costs and an amount for new capital costs based on a proportion of the federal capital rate, or 100% of the federal capital rate. Alternatively, with limited exceptions, if the hospital-specific rate is below the federal capital rate, the hospital receives payments based upon a "fully prospective" methodology, which is a blend of the hospital's hospital-specific capital rate and the federal capital rate. Each hospital's hospital-specific rate was determined based upon allowable capital costs incurred during the "base year", which, for most of the Company's hospitals, was the year ended December 31, 1990. Updated amounts and factors necessary to determine PPS rates for Medicare hospital inpatient services for operating costs and capital related costs are published annually.

In addition to the trends described above that continue to have an impact on the operating results, there are a number of other more general factors affecting the Company's business. BBA-97 called for the government to trim the growth of federal spending on Medicare by $115 billion and on Medicaid by $13 billion over the following years. The act also called for reductions in the future rate of increases to payments made to hospitals and reduced the amount of reimbursement for outpatient services, bad debt expense and capital costs. Some of these reductions were reversed with the passage on December 15, 2000 of the Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 ("BIPA") which, among other things, increased Medicare and Medicaid payments to healthcare providers by $35 billion over 5 years with approximately $12 billion of this amount targeted for hospitals and $11 billion for managed care payors. These increased reimbursements to hospitals pursuant to the terms of BIPA commenced in April, 2001. BBA-97 established the annual update for Medicare at market basket minus 1.1% in both fiscal years 2001 (October 1, 2000 and through September 30, 2001) and 2002 and BIPA revised the update at the full market basket in fiscal year 2001 and market basket minus .55% in fiscal years 2002 and 2003. Additionally, BBA-97 reduced reimbursement to hospitals for Medicare bad debts to 55% and BIPA increased the reimbursement to 70%, with an effective date for the Company of January 1, 2001. It is possible that future federal budgets will contain certain further reductions or increases in the rate of increase of Medicare and Medicaid spending.

The Company can provide no assurances that the reductions in the PPS update, and other changes required by BBA-97, will not adversely affect the Company's operations. However, within certain limits, a hospital can manage its costs, and, to the extent this is done effectively, a hospital may benefit from the DRG system. However, many hospital operating costs are incurred in order to satisfy licensing laws, standards of the Joint Commission on the Accreditation of Healthcare Organizations ("JCAHO") and quality of care concerns. In addition, hospital costs are affected by the level of patient acuity, occupancy rates and local physician practice patterns, including length of stay, judgments and number and type of tests and procedures ordered. A hospital's ability to control or influence these factors which affect costs is, in many cases, limited.

In addition to Federal health reform efforts, several states have adopted or are considering healthcare reform legislation. Several states are considering 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 501 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 healthcare delivery system based on managed care principles. The program is now known as the STAR program, which is short for State of Texas Access Reform. Since 1995, the Texas Health and Human Services Commission, with the help of other Texas agencies such as the Texas Department of Health, has rolled out STAR Medicaid managed care pilot programs in several geographic areas of the state. Under the STAR program, the Texas Department of Health either contracts with health maintenance organizations in each area to arrange for covered services to Medicaid beneficiaries, or contracts directly with healthcare providers and oversees the furnishing of care in the role of the case manager. Two carve-out pilot programs are the STAR+PLUS program, which integrates acute care and long-term care into a managed care system in the Harris County service area, and the NorthSTAR program, which furnishes behavioral health services to Medicaid beneficiaries in the Dallas County service area. Effective in the fall of 1999, however, the Texas legislature imposed a moratorium on the implementation of additional pilot programs until the 2001 legislative session. A study on the effectiveness of Medicaid managed care was issued in November, 2000. In June 2001, the state enacted House Bill 3038, which requires the enrollment in group health plans of Medicaid and SCHIP recipients who are eligible for such plans, if the state determines that such enrollment is cost-effective. The effective date for this requirement was September 1, 2001. The state has indicated, however, that it will not be expanding the Medicaid Managed Care program to any additional areas within the next year.

Upon meeting certain conditions, and serving a disproportionately high share of Texas' and South Carolina's low income patients, five of the Company's facilities located in Texas and one facility located in South Carolina became eligible and received additional reimbursement from each state's disproportionate share hospital fund. Included in the Company's financial results was an aggregate of $32.6 million in 2001, $28.9 million in 2000 and $37.0 million in 1999 received pursuant to these programs. The Texas and South Carolina programs have been renewed for the 2002 fiscal year and the Company expects its reimbursements, as scheduled pursuant to the terms of these programs, to increase by approximately $4.2 million annually as compared to the 2001 fiscal year. Failure to renew these programs, which are scheduled to terminate in the third quarter of 2002, or reductions in reimbursements, could have a material adverse effect on the Company's future results of operations.

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

Pressures to control health care costs and a shift away from traditional Medicare indemnity plans to Medicare managed care plans have resulted in an increase in the number of patients whose health care coverage is provided under managed care plans. Approximately 37% in 2001, 35% in 2000 and 32% in 1999, of the Company's net patient revenues were generated from managed care companies, which includes health maintenance organizations and preferred provider organizations. In general, the Company expects the percentage of its business from managed care programs to continue to grow. The consequent growth in managed care networks and the resulting impact of these networks on the operating results of the Company's facilities vary among the markets in which the Company operates. Typically, the Company receives lower payments per patient from managed care payors than it does from traditional indemnity insurers, however, during the past year, the Company secured price increases from many of its commercial payors including managed care companies.

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

$7 million through 2001. These subsidiaries maintain excess coverage up to $100 million with other major insurance carriers.

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

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

Health Insurance Portability and Accountability Act of 1996

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

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

- Mandating the adoption of security standards to preserve the confidentiality, integrity and availability of medical information that identifies individuals. Currently there is no recognized healthcare standard that includes all the necessary components to protect the data integrity and confidentiality of a patient's electronically maintained or transmitted personal medical record. The final regulations containing the privacy standards were released in December, 2000 and require compliance by April, 2003.

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

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

Market Risks Associated with Financial Instruments

The Company's interest expense is sensitive to changes in the general level of domestic interest rates. To mitigate the impact of fluctuations in domestic interest rates, a portion of the Company's debt is fixed rate accomplished by either borrowing on a long-term basis at fixed rates or by entering into interest rate swap transactions. The interest rate swap agreements are contracts that require the Company to pay fixed and receive floating interest rates over the life of the agreements. The floating-rates are based on LIBOR and the fixed-rate is determined at the time the swap agreement is consummated.

As of December 31, 2001, the Company had three interest rate swaps. One fixed rate swap with a notional principal amount of $125 million which expires in August 2005. The Company pays a fixed rate of 6.76% and receives a floating rate equal to three month LIBOR. As of December 31, 2001, the floating rate of the $125 million of interest rate swaps was 2.01%. In November 2001, the Company entered into two floating rate swaps having an aggregate notional principal amount of $60 million in which the company receives a fixed rate of 6.75% and pays a floating rate equal to 6 month LIBOR plus a spread. The term of these swaps is ten years and they are both scheduled to expire on November 15, 2011. As of December 31, 2001, the average floating rate of the $60 million of interest rate swaps was 3.43%.

As of December 31, 2000, the Company had a five year interest rate swap having a notional principal amount of $135 million whereby the Company pays a floating rate and the counter-party pays the Company a fixed rate of 8.75%. The counter-party had the right to cancel the swap at any time during the swap term with thirty days notice. The option was exercised in 2001 and the swap was cancelled. The termination resulted in a net payment to the Company of approximately $3.8 million. The Company also had a fixed rate swap having a notional principal amount of $135 million whereby the Company pays a fixed rate of 6.76% and receives a floating rate from the counter-party. During 2001, the notional amount of this swap was reduced to $125 million. The Company had two interest rate swaps to fix the rate of interest on a total notional principal amount of $75 million with a maturity date of August, 2010. The average fixed rate on the $75 million of interest rate swaps, including the Company's borrowing spread of .35%, was 7.05%. The total cost of all swaps terminated in 2001 was $7.4 million.

The interest rate swap agreements do not constitute positions independent of the underlying exposures. The Company does not hold or issue derivative instruments for trading purposes and is not a party to any instruments with leverage features. The Company is exposed to credit losses in the event of nonperformance by the counterparties to its financial instruments. The counterparties are creditworthy financial institutions, rated AA or better by Moody's Investor Services and the Company anticipates that the counterparties will be able to fully satisfy their obligations under the contracts. For the years ended December 31, 2001, 2000 and 1999, the Company received weighted average rates of 5.9%, 7.2% and 5.5%, respectively, and paid a weighted average rate on its interest rate swap agreements of 6.9% in 2001, 7.5% in 2000 and 5.8% in 1999.

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, 2001. For debt obligations, the table presents principal cash flows and related weighted-average interest rates by contractual maturity dates. For interest rate swap agreements, the table presents notional amounts by maturity date and weighted average interest rates based on rates in effect at

December 31, 2001. The fair values of long-term debt and interest rate swaps were determined based on market prices quoted at December 31, 2001, for the same or similar debt issues.

	Maturity Date, Fiscal Year Ending December 31						
	2002	2003	2004	2005	2006	There-after	Total
	(Dollars in thousands)						
Liabilities							
Long-term debt:							
Fixed rate--Fair value	$2,436	$3,055	$1,951	$1,894	$ 1,525	$502,924(a)	$513,785
Fixed rate--Carrying value	$2,436	$3,055	$1,951	$1,894	$ 1,525	$471,205	$482,066
Average interest rates	7.4%	6.9%	6.6%	6.5%	6.3%	5.7%	
Variable rate long-term debt					$ 221,000	$ 18,200	$239,200
Interest Rate Derivatives							
Interest rate swaps:							
Pay fixed/receive variable notional amounts					$ 125,000		$125,000
Fair value					$ (10,227)		$(10,227)
Average pay rate					6.76%		
Average receive rate					3 month LIBOR		
Pay variable/receive fixed notional amounts					$ (60,000)		$(60,000)
Fair value (included in long-term debt)					$ (1,455)		$ (1,455)
Average pay rate					6 month LIBOR plus spread		
Average receive rate					6.75%		

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(a) The fair value of the Company's 5% discounted convertible debentures ("Debentures") at December 31, 2001 is $303 million, however, the Company has the right to redeem the Debentures any time on or after June 23, 2006 at a price equal to the issue price of the Debentures plus accrued original issue discount and accrued cash interest to the date of redemption. On June 23, 2006 the amount necessary to redeem all Debentures would be $319 million. If the Debentures could be redeemed at the same basis at December 31, 2001 the redemption amount would be $265 million. The holders of the Debentures may convert the Debentures to the Company's Class B stock at any time. If all Debentures were converted, the result would be the issuance of 6.6 million shares of the Company's Class B Common Stock.

Effects of Inflation and Seasonality

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

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

Liquidity and Capital Resources

Net cash provided by operating activities was $312 million in 2001, $182 million in 2000 and $176 million in 1999. The $130 million increase during 2001 as compared to 2000 was primarily attributable to: (i) a favorable $73 million change due to an increase in net income plus the addback of adjustments to reconcile net cash provided by operating activities (depreciation & amortization, minority interests in earnings of consolidated entities, accretion of discount on convertible debentures, losses on foreign exchange, derivative transactions & debt extinguishment and provision for insurance settlement and other non-cash charges); (ii) an unfavorable $40 million change due to timing of net income tax payments; (iii) a $31 favorable change in accounts receivable; (iv) a $28 million favorable change in other assets and deferred charges, and; (v) $38 million of other net favorable working capital changes. Included in the $73 million favorable change in income plus the addback of adjustments to reconcile net cash provided by operating activities was a $40 million non-cash reserve established during the fourth quarter of 2001 related to the liquidation of PHICO, the Company's third party hospital professional and general liability insurance company (see General Trends). The $40 million increase in net income taxes paid during 2001 was due to a reduction in the 2000 net income tax payments resulting primarily from higher tax benefits from employee stock options and the decreases in accrued taxes attributable to overpayments in 1999. The $31 million favorable change in accounts receivable resulted from improved accounts receivable management during 2001.

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

During 2001, the Company spent $263 million to acquire the assets and operations of: (i) four acute care facilities located in the U.S. (two of which were effective on January 1, 2002); (ii) two behavioral health care facilities located in the U.S. and one located in Puerto Rico; (iii) an 80% ownership interest in a French hospital company that owns nine hospitals located in France, and; (iv) majority ownership interests in two ambulatory surgery centers. During 2000, the Company spent $141 million to acquire the assets and operations of twelve behavioral health care facilities and two acute care hospitals and $12 million to acquire a minority ownership interest in an e-commerce marketplace for the purchase and sale of health care supplies, equipment and services to the healthcare industry. During 1999, the Company acquired three behavioral health facilities for a combined purchase price of $27 million in cash plus contingent consideration of up to $3 million. Also during 1999, the Company acquired the assets and operations of Doctor's Hospital of Laredo in exchange for the assets and operations of its Victoria Regional Medical Center. In connection with this transaction, the Company also spent approximately $5 million to purchase additional land in Laredo, Texas on which it constructed a replacement hospital that was completed and opened in the third quarter of 2001.

Capital expenditures were $153 million in 2001, $114 million in 2000 and $68 million in 1999. Included in the 2001 capital expenditures were costs related to the completion of a new 180-bed acute care hospital located in Laredo, Texas and the 126-bed addition to the Desert Springs Hospital in Las Vegas, Nevada. Capital

expenditures for capital equipment, renovations and new projects at existing hospitals and completion of major construction projects in progress at December 31, 2001 are expected to total approximately $215 million to $265 million in 2002. Included in the 2002 projected capital expenditures are the remaining expenditures on the new George Washington University Hospital located in Washington, DC, a major renovation of an acute care hospital located in Washington and the first phase of an new 176-bed acute care hospital located in Las Vegas, Nevada. The Company believes that its capital expenditure program is adequate to expand, improve and equip its existing hospitals.

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

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

During 1998 and 1999, the Company's Board of Directors approved stock purchase programs authorizing the Company to purchase up to twelve million shares of its outstanding Class B Common Stock on the open market at prevailing market prices or in negotiated transactions off the market. Pursuant to the terms of these programs, the Company purchased 4,056,758 shares at an average purchase price of $17.55 per share ($71.2 million in the aggregate) during 1999, 2,408,000 shares at an average purchase price of $14.95 per share ($36.0 million in the aggregate) during 2000 and 178,057 shares at an average purchase price of $43.33 per share ($7.7 million in the aggregate) during 2001. Since inception of the stock purchase program in 1998 through December 31, 2001, the Company purchased a total of 7,803,815 shares at an average purchase price of $17.91 per share ($139.8 million in the aggregate).

During the fourth quarter of 2001 the Company entered into a new $400 million unsecured non-amortizing revolving credit agreement, which expires on December 13, 2006. The agreement includes a $50 million sublimit for letters of credit of which $40 million was available at December 31, 2001. The interest rate on borrowings is determined at the Company's option at the prime rate, certificate of deposit rate plus .925% to 1.275%, Euro-dollar plus .80% to 1.150% or a money market rate. A facility fee ranging from .20% to .35% is required on the total commitment. The margins over the certificate of deposit, the Euro-dollar rates and the facility fee are based upon the Company's leverage ratio. At December 31, 2001, the applicable margins over the certificate of deposit and the Euro-dollar rate were 1.125% and 1.00%, respectively, and the commitment fee was .25%. There are no compensating balance requirements. As of December 31, 2001, the Company had approximately $269 million of unused borrowing capacity under the terms of its revolving credit agreement.

During the fourth quarter of 2001, the Company issued $200 million of notes ("Notes") that have a 6.75% coupon rate (6.757% effective rate including amortization of bond discount) and will mature on November 15, 2011. The notes can be redeemed in whole at any time or in part, from time to time at the Company's option at a redemption price equal to accrued and unpaid interest on the principal being redeemed to the redemption date plus the greater of: (i) 100% of the principal amount of the notes to be redeemed, and; (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes to be redeemed (not including any portion of such payments of interest accrued to the date of redemption), discounted to the date of redemption on a semiannual basis at the adjusted treasury rate (as defined) plus 30 basis points. The interest on the Notes will be paid semiannually on May 15th and November 15th of each year. The net proceeds generated from this issuance were approximately $198.5 million and were used to repay outstanding borrowings under the Company revolving credit agreement.

Also during the fourth quarter of 2001, the Company redeemed all of its outstanding $135.0 million, 8.75% Senior Notes ("Senior Notes") due 2005 for an aggregate redemption price of $136.5 million. The redemption of the Senior Notes was financed with borrowings under the Company's commercial paper and revolving credit facilities. During the third quarter of 2001, the counter-party to an interest rate swap with a notional principal amount of $135 million, elected to terminate the interest rate swap. This swap was a designated fair value hedge to the Senior Notes. The termination resulted in a net payment to the Company of approximately $3.8 million. Upon the termination of the fair value hedge, the Company ceased adjusting the fair value of the debt. The effective interest method was used to amortize the resulting difference between the fair value at termination and the face value of the debt through the maturity date of the Senior Notes. In connection with the redemption of the Senior Notes, the Company recorded a net loss on debt extinguishment of $1.6 million during the fourth quarter of 2001.

As of December 31, 2001, the Company had no unused borrowing capacity under the terms of its $100 million, annually renewable, commercial paper program. A large portion of the Company's accounts receivable are pledged as collateral to secure this program. This annually renewable program, which began in 1993, is scheduled to expire or be renewed in October of each year. The commercial paper program has been renewed for the period of October 24, 2001 through October 23, 2002.

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

Total debt as a percentage of total capitalization was 47% at December 31, 2001, 43% at December 31, 2000 and 40% at December 31, 1999. The increases during the last three years were due primarily to the purchase transactions, capital additions and stock purchases, as mentioned above. The capital expenditures, purchase transactions and stock repurchases during the last three years were essentially financed with net cash provided by operating activities and borrowings generated from the Company's revolving credit facility and the issuances of the Notes and Debentures as mentioned above.

As of December 31, 2001, the Company had three interest rate swaps. One fixed rate swap with a notional principal amount of $125 million which expires in August 2005. The Company pays a fixed rate of 6.76% and receives a floating rate equal to three month LIBOR. As of December 31, 2001, the floating rate of the $125 million of interest rate swaps was 2.01%. In November 2001, the Company entered into two floating rate swaps having a notional principal amount of $60 million in which the company receives a fixed rate of 6.75% and pays a floating rate equal to 6 month LIBOR plus a spread. The term of these swaps is ten years and they are both scheduled to expire on November 15, 2011. As of December 31, 2001, the average floating rate of the $60 million of interest rate swaps was 3.43%.

As of December 31, 2000, the Company had a five year interest rate swap having a notional principal amount of $135 million whereby the Company pays a floating rate and the counter-party pays the Company a fixed rate of 8.75%. The counter-party had the right to cancel the swap at any time during the swap term with thirty days notice. The option was exercised in 2001 and the swap was cancelled. The termination resulted in a

net payment to the Company of approximately $3.8 million. The Company also had a fixed rate swap having a notional principal amount of $135 million whereby the Company pays a fixed rate of 6.76% and receives a floating rate from the counter-party. During 2001, the notional amount of this swap was reduced to $125 million. The Company had two interest rate swaps to fix the rate of interest on a total notional principal amount of $75 million with a maturity date of August, 2005. The average fixed rate on the $75 million of interest rate swaps, including the Company's borrowing spread of .35%, was 7.05%. Both of these swaps totaling $75 million were terminated in 2001 at a cost of $7.4 million.

The effective interest rate on the Company's revolving credit, demand notes and commercial paper program, including the interest rate swap expense and income incurred on existing and now expired interest rate swaps, was 6.4%, 7.1% and 6.2% during 2001, 2000 and 1999, respectively. Additional interest (expense)/ income recorded as a result of the Company's hedging activity was ($2,730,000) in 2001, $414,000 in 2000 and ($202,000) in 1999. The Company is exposed to credit loss in the event of non-performance by the counter-party to the interest rate swap agreements. All of the counter-parties are creditworthy financial institutions rated AA or better by Moody's Investor Service and the Company does not anticipate non-performance. The estimated fair value of the cost to the Company to terminate the interest rate swap obligations at December 31, 2001 and 2000 was approximately $11.7 million and $4.3 million, respectively.

Covenants relating to long-term debt require maintenance of a minimum net worth, specified debt to total capital and fixed charge coverage ratios. The Company is in compliance with all required covenants as of December 31, 2001.

The fair value of the Company's long-term debt at December 31, 2001 and 2000 was approximately $751.5 million and $693.3 million, respectively.

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 and/or the commercial paper facility and/or the issuance of equity or long-term debt.

The following represents the scheduled maturities of the Company's contractual obligations as of December 31, 2001:

	Payments Due by Period (dollars in thousands)				
Contractual Obligation	Total	Less than 1 Year	2-3 years	4-5 years	After 5 years
Long-term debt fixed (a)	$483,521	$ 2,436	$ 5,006	$ 3,419	$ 472,660 (b)
Long-term debt-variable	239,200	--	--	221,000	18,200
Accrued interest	3,050	3,050	--	--	--
Construction commitments (c)	66,968	26,968	--	40,000	--
Operating leases	116,366	30,926	49,404	30,124	5,912
Total contractual cash obligations	$909,105	$63,380	$54,410	$294,543	$496,772

(a) Includes capital lease obligations.
(b) Amount is presented net of discount on Debentures of $321,430.
(c) Estimated cost of completion on a new 371-bed acute care hospital in Washington, DC and the construction of a new 100-bed acute care facility in Eagle Pass, Texas.

Significant Accounting Policies

The Company has determined that the following accounting policies and estimates are critical to the understanding of the Company's consolidated financial statements.

Revenue Recognition: Revenue and the related receivables for health care services are recorded in the accounting records on an accrual basis at the Company's established charges. The provision for contractual adjustments, which represents the difference between established charges and estimated third-party payor payments, is also recognized on an accrual basis and deducted from gross revenue to determine net revenues. Payment arrangements with third-party payors may include prospectively determined rates per discharge, a discount from established charges, per-diem payments and reimbursed costs. Estimates of contractual adjustments are reported in the period during which the services are provided and adjusted in future periods, as the actual amounts become known. Revenues recorded under cost-based reimbursement programs may be adjusted in future periods as a result of audits, reviews or investigations. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. Medicare and Medicaid net revenues represented 42%, 44% and 46% of net patient revenues for the years 2001, 2000 and 1999, respectively. In addition, approximately 37% in 2001, 35% in 2000 and 32% in 1999 of the Company's net patient revenues were generated from managed care companies, which include health maintenance organizations and preferred provider organizations.

The Company establishes an allowance for doubtful accounts to reduce its receivables to their net realizable value. The allowances are estimated by management based on general factors such as payor mix, the agings of the receivables and historical collection experience. At December 31, 2001 and 2000, accounts receivable were recorded net of allowance for doubtful accounts of $61.1 million and $65.4 million, respectively.

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

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

As of December 31, 2001 and 2000, the reserve for professional and general liability claims was $104.1 million and $57.9 million, respectively, of which $26.0 million and $9.0 million in 2001 and 2000, 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 by material amounts in the near term.

Reference is made to Note 1 to Consolidated Financial Statements for additional information on other accounting policies and new accounting pronouncements.

Related Party Transactions

At December 31, 2001, the Company held approximately 6.6% of the outstanding shares of Universal Health Realty Income Trust (the "Trust"). The Company serves as advisor to the Trust under an annually renewable advisory agreement. Pursuant to the terms of this advisory agreement, the Company conducts the Trust's day to day affairs, provides administrative services and presents investment opportunities. In addition, certain officers and directors of the Company are also officers and/or directors of the Trust. Management believes that it has the ability to exercise significant influence over the Trust, therefore the Company accounts for its

investment in the Trust using the equity method of accounting. The Company's pre-tax share of income from the Trust was $1.3 million for the year ended December 31, 2001, $1.2 million for the year ended December 31, 2000 and $1.1 million for the year ended December 31, 1999, and is included in net revenues in the accompanying consolidated statements of income. The carrying value of this investment was $9.0 million at both December 31, 2001 and 2000 and is included in other assets in the accompanying consolidated balance sheets. The market value of this investment was $18.0 million at December 31, 2001 and $15.1 million at December 31, 2000.

As of December 31, 2001, the Company leased six hospital facilities from the Trust with terms expiring in 2003 through 2006. These leases contain up to five 5-year renewal options. During 2001, the Company exercised the five-year renewal option on an acute care hospital leased from the Trust which was scheduled to expire in 2001. The lease on this facility was renewed at the same lease rate and term as the initial lease. Future minimum lease payments to the Trust are included in Note 7 to Consolidated Financial Statements. Total rent expense under these operating leases was $16.5 million in 2001, $17.1 million in 2000, and $16.6 million in 1999. 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 from the Trust of $1.3 million in both 2001 and 2000 and $1.2 million in 1999 for investment and administrative services provided under a contractual agreement which is included in net revenues in the accompanying consolidated statements of income.

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

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

ITEM 8. Financial Statements and Supplementary Data

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

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

ITEM 10. Directors and Executive Officers of the Registrant

There is hereby incorporated by reference the information to appear under the caption "Election of Directors" in the Company's Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after December 31, 2001. 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, 2001.

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, 2001.

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, 2001.

PART IV

ITEM 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. and 2. Financial Statements and Financial Statement Schedule.

See Index to Financial Statements and Financial Statement Schedule on page 30.

(b) Reports on Form 8-K

Report on Form 8-K dated October 2, 2001, reported under Item 5, that on September 26, 2001, Universal Health Services, Inc. issued a press release announcing that it has called for redemption on October 9, 2001 of all its outstanding 8.75% Senior Notes due August 15, 2005.

Report on Form 8-K dated November 1, 2001, reported under Item 5, that on October 16, 2001, Universal Health Services, Inc. issued a press release announcing its financial results for the third quarter ended September 30, 2001 and other recent developments.

Report on Form 8-K dated November 12, 2001, reported under Item 7, filing two exhibits to the Company's Registration Statement on Form S-3, as amended, consisting of the Underwriting Agreement, dated November 6, 2001 and Form of 6.75% Note due 2011.

(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.

3.3 Amendment to the Company's Restated Certificate of Incorporation previously filed as Exhibit 3.1 to Registrant's Current Report on Form 8-K dated July 3, 2001.

4.1 Indenture dated as of June 23, 2000 between Universal Health Services, Inc. and Bank One Trust Company, N.A., previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, is incorporated herein by reference.

4.2 Authorizing Resolution adopted by the Pricing Committee of Universal Health Services, Inc. on June 19, 2000, related to $586,992,000 aggregate principal amount at maturity convertible debentures due 2020.

4.3 Form of $586,992,000 aggregate principal amount at maturity convertible debenture due 2020.

4.4 Form of Indenture dated , 2000, between Universal Health Services, Inc. and Bank One Trust Company, N.A., Trustee previously filed as Exhibit 4.1 to Registrant's Registration Statement on Form S-3/A (File No. 333-85781), dated February 1, 2000, is incorporated herein by reference.

4.5 Authorizing Resolution adopted by the Pricing Committee of Universal Health Services, Inc. on November 6, 2001, related to $200,000,000 principal amount of 6 3/4% Notes due 2011.

4.6 Form of 6 3/4% Notes due 2011, previously filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated November 13, 2001, is incorporated herein by reference.

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

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

10.3 Agreement, effective January 1, 2002, to renew Advisory Agreement, dated as of December 24, 1986, between Universal Health Realty Income Trust and UHS of Delaware, Inc.

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

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

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

10.7 1990 Employees' Restricted Stock Purchase Plan, previously filed as Exhibit 10.24 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1990, is incorporated herein by reference.

10.8 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.

10.9 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.

10.10 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.

10.11 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.

10.12 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.

10.13 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.

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

10.15 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.

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

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

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

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

10.20 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.

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

10.22 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.

10.23 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.

10.24 $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.

10.25 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.

10.26 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.

10.27 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.

10.28 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.

10.29 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.

10.30 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.

10.31 1992 Corporate Ownership Program, as Amended, previously filed as Exhibit 10.9 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1998, is incorporated herein by reference.

10.32 Amended and Restated 1992 Stock Option Plan, previously filed as Exhibit 10.33 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2000, is incorporated herein by reference.

10.33. Credit Agreement dated as of December 13, 2001 among Universal Health Services, Inc., its Eligible Subsidiaries, JPMorgan Chase Bank, Bank of America, N.A., First Union National Bank, Fleet National Bank, ABN Amro Bank N.V., Banco Popular de Puerto Rico, Sun Trust Bank, The Bank of New York, National City Bank of Kentucky, PNC Bank, JPMorgan Chase Bank, as Administrative Agent, Bank of America, N.A., as Syndication Agent and First Union National Bank and Fleet National Bank, as Co-Documentation Agents.

10.34. Employee's Restricted Stock Purchase Plan, previously filed as Exhibit 10.1 on Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001, is incorporated herein by reference.

11. Statement re computation of per share earnings is set forth in Note 1 of the Notes to the Condensed Consolidated Financial Statements.

22. Subsidiaries of Registrant.

24. Consent of Independent Public Accountants.

99.1. Letter to the Securities and Exchange Commission Pursuant to Temporary Note 3T.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Universal Health Services, Inc.

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

March 15, 2002

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 15, 2002
/s/ Anthony Pantaleoni Anthony Pantaleoni	Director	March 15, 2002
/s/ Robert H. Hotz Robert H. Hotz	Director	March 15, 2002
/s/ John H. Herrell John H. Herrell	Director	March 15, 2002
/s/ John F. Williams, Jr., M.D. John F. Williams, Jr., M.D.	Director	March 15, 2002
/s/ Leatrice Ducat Leatrice Ducat	Director	March 15, 2002
/s/ Kirk E. Gorman Kirk E. Gorman	Senior Vice President and Chief Financial Officer	March 15, 2002
/s/ Steve Filton Steve Filton	Vice President, Controller, Principal Accounting Officer and Secretary	March 15, 2002

UNIVERSAL HEALTH SERVICES, INC.

INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE

(ITEM 14(a))

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Universal Health Services, Inc. (a Delaware corporation) and subsidiaries as of December 31, 2001 and 2000, 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, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Universal Health Services, Inc. and subsidiaries as of December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Philadelphia, Pennsylvania
February 13, 2002

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31		
	2001	2000	1999
	(In thousands, except per share data)		
Net revenues	$2,840,491	$2,242,444	$2,042,380
Operating charges			
Salaries, wages and benefits	1,122,428	873,747	793,529
Other operating expenses	668,026	515,084	475,070
Supplies expense	368,091	301,663	289,074
Provision for doubtful accounts	240,025	192,625	166,139
Depreciation & amortization	127,523	112,809	108,333
Lease and rental expense	53,945	49,039	49,029
Interest expense, net	36,176	29,941	26,872
Provision for insurance settlements	40,000	--	--
Facility closure costs	--	7,747	5,300
	2,656,214	2,082,655	1,913,346
Income before minority interests, effect of foreign exchange and derivative transactions, income taxes and extraordinary charge	184,277	159,789	129,034
Minority interests in earnings of consolidated entities	17,518	13,681	6,251
Losses on foreign exchange and derivative transactions	8,862	--	--
Income before income taxes and extraordinary charge	157,897	146,108	122,783
Provision for income taxes	57,147	52,746	45,008
Net income before extraordinary charge	100,750	93,362	77,775
Extraordinary charge from early extinguishment of debt, net of taxes	1,008	--	--
Net income	$ 99,742	$ 93,362	$ 77,775
Earnings per Common Share before extraordinary charge:			
Basic	$ 1.68	$ 1.55	$ 1.24
Diluted	$ 1.62	$ 1.50	$ 1.22
Earnings per Common Share after extraordinary charge:			
Basic	$ 1.67	$ 1.55	$ 1.24
Diluted	$ 1.60	$ 1.50	$ 1.22
Weighted average number of common shares--basic	59,874	60,220	62,834
Weighted average number of common share equivalents	7,346	4,600	1,146
Weighted average number of common shares and equivalents--diluted	67,220	64,820	63,980

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2001	2000
	(Dollar amounts in thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 22,848	$ 10,545
Accounts receivable, net	418,083	376,601
Supplies	54,764	45,518
Deferred income taxes	25,227	17,943
Other current assets	27,340	25,848
Total current assets	548,262	476,455
Property and Equipment		
Land	149,208	109,744
Buildings and improvements	845,523	704,065
Equipment	505,310	441,623
Property under capital lease	31,902	25,563
	1,531,943	1,280,995
Less accumulated depreciation	594,602	512,704
	937,341	768,291
Funds restricted for construction	196	37,381
Construction-in-progress	93,668	69,955
	1,031,205	875,627
Other Assets		
Goodwill	372,627	316,777
Deferred charges	16,533	17,223
Other	145,957	56,295
	535,117	390,295
	$2,114,584	$1,742,377
LIABILITIES AND COMMON STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt	$ 2,436	$ 689
Accounts payable	144,163	113,294
Accrued liabilities		
Compensation and related benefits	58,607	52,361
Interest	3,050	4,964
Taxes other than income	26,525	15,296
Other	87,050	59,708
Federal and state taxes	885	2,528
Total current liabilities	322,716	248,840
Other Noncurrent Liabilities	110,385	71,730
Minority Interests	125,914	120,788
Long-Term Debt	718,830	548,064
Deferred Income Taxes	28,839	36,381
Commitments and Contingencies (Note 8)		
Common Stockholders' Equity		
Class A Common Stock, voting, $.01 par value; authorized 12,000,000 shares; issued and outstanding 3,848,886 shares in 2001 and 3,848,886 in 2000	38	38
Class B Common Stock, limited voting, $.01 par value; authorized 150,000,000 shares; issued and outstanding 55,603,686 shares in 2001 and 55,549,312 in 2000	556	556
Class C Common Stock, voting, $.01 par value; authorized 1,200,000 shares; issued and outstanding 387,848 shares in 2001 and 387,848 in 2000	4	4
Class D Common Stock, limited voting, $.01 par value; authorized 5,000,000 shares; issued and outstanding 39,109 shares in 2001 and 44,530 in 2000	--	--
Capital in excess of par value, net of deferred compensation of $203 in 2001 and $485 in 2000	137,400	139,654
Retained earnings	676,064	576,322
Accumulated other comprehensive loss	(6,162)	--
	807,900	716,574
	$2,114,584	$1,742,377

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, 2001, 2000, and 1999

	Class A Common	Class B Common	Class C Common	Class D Common	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(Amounts in thousands)							
Balance January 1, 1999..	$21	$299	$ 2	--	$221,500	$405,185	--	$627,007
Common Stock								
Issued.....	(1)	5	--	--	7,956	--	--	7,960
Repurchased.....	--	(20)	--	--	(71,205)	--	--	(71,225)
Amortization of deferred compensation.....	--	--	--	--	94	--	--	94
Net income.....	--	--	--	--	--	77,775	--	77,775
Balance January 1, 2000..	20	284	2	--	158,345	482,960	--	641,611
Common Stock								
Issued.....	(1)	6	--	--	16,629	--	--	16,634
Repurchased.....	--	(12)	--	--	(35,973)	--	--	(35,985)
Amortization of deferred compensation.....	--	--	--	--	952	--	--	952
Net income.....	--	--	--	--	--	93,362	--	93,362
Balance January 1, 2001..	19	278	2	--	139,953	576,322	--	716,574
Common Stock								
Issued.....	--	1	--	--	4,844	--	--	4,845
Stock dividend.....	19	278	2	--	(299)	--	--	--
Repurchased.....	--	(1)	--	--	(7,733)	--	--	(7,734)
Amortization of deferred compensation.....	--	--	--	--	635	--	--	635
Comprehensive Income:								
Net income.....	--	--	--	--	--	99,742	--	99,742
Foreign currency translation adjustments.....	--	--	--	--	--	--	161	161
Cumulative effect of change in accounting principle (SFAS No. 133) on other comprehensive income (net of income tax effect of $2,801).....	--	--	--	--	--	--	(4,779)	(4,779)
Unrealized derivative losses on cash flow hedges (net of income tax effect of $905)...	--	--	--	--	--	--	(1,544)	(1,544)
Total--comprehensive income.....	--	--	--	--	--	99,742	(6,162)	93,580
Balance December 31, 2001.....	$38	$556	$ 4	--	$137,400	$676,064	$(6,162)	$807,900

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		
	2001	2000	1999
	(Amounts in thousands)		
Cash Flows from Operating Activities:			
Net income	$ 99,742	$ 93,362	$ 77,775
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	127,523	112,809	108,333
Minority interests in earnings of consolidated entities	17,518	13,681	6,251
Accretion of discount on convertible debentures	10,323	5,239	--
Losses on foreign exchange, derivative transactions & debt extinguishment	10,460	--	--
Provision for insurance settlements and other non-cash charges	40,000	7,747	5,300
Changes in assets and liabilities, net of effects from acquisitions and dispositions:			
Accounts receivable	1,384	(29,391)	(37,958)
Accrued interest	(1,914)	(1,020)	(157)
Accrued and deferred income taxes	(9,292)	28,489	(3,370)
Other working capital accounts	13,913	1,408	32,371
Other assets and deferred charges	10,689	(17,237)	(5,775)
Increase in working capital at acquired facilities	(9,133)	(24,155)	--
Other	(7,304)	(6,209)	2,957
Accrued insurance expense, net of commercial premiums paid	23,531	9,012	7,485
Payments made in settlement of self-insurance claims	(15,253)	(11,281)	(17,655)
Net cash provided by operating activities	312,187	182,454	175,557
Cash Flows from Investing Activities:			
Property and equipment additions	(152,938)	(113,900)	(67,576)
Acquisition of businesses	(263,463)	(141,333)	(31,588)
Proceeds received from merger, sale or disposition of assets	--	16,253	16,358
Investment in business	--	(12,273)	--
Net cash used in investing activities	(416,401)	(251,253)	(82,806)
Cash Flows from Financing Activities:			
Additional borrowings, net of financing costs	280,499	252,566	15,150
Reduction of long-term debt	(137,005)	(141,045)	(15,830)
Net cash paid related to termination of interest rate swap, foreign currency exchange and early extinguishment of debt	(6,608)	--	--
Distributions to minority partners	(14,644)	(7,633)	(18,439)
Issuance of common stock	2,009	5,260	2,514
Repurchase of common shares	(7,734)	(35,985)	(71,225)
Net cash provided by (used in) financing activities	116,517	73,163	(87,830)
Increase in Cash and Cash Equivalents	12,303	4,364	4,921
Cash and Cash Equivalents, Beginning of Period	10,545	6,181	1,260
Cash and Cash Equivalents, End of Period	$ 22,848	$ 10,545	$ 6,181
Supplemental Disclosures of Cash Flow Information:			
Interest paid	$ 27,767	$ 25,722	$ 27,029
Income taxes paid, net of refunds	$ 64,492	$ 24,284	$ 48,833

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of Universal Health Services, Inc. (the "Company"), its majority-owned subsidiaries and partnerships controlled by the Company or its subsidiaries as the managing general partner. The Company's France subsidiary is included on the basis of the year ending November 30th. 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, through its subsidiaries, acute care hospitals, behavioral health centers, ambulatory surgery centers and radiation oncology centers. At December 31, 2001, the Company operated 35 acute care hospitals and 38 behavioral health centers located in 22 states, Washington, DC, Puerto Rico and France. The Company, as part of its ambulatory treatment centers division owns outright, or in partnership with physicians, and operates or manages 23 surgery and radiation oncology centers located in 12 states.

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 and ambulatory and outpatient treatment centers accounted for 81%, 84%, and 86% of consolidated net revenues in 2001, 2000, and 1999, respectively. Net revenues from the Company's behavioral health care facilities accounted for 19%, 16%, and 13% of consolidated net revenues in 2001, 2000, and 1999, respectively.

Revenue Recognition: Revenue and the related receivables for health care services are recorded in the accounting records on an accrual basis at the Company's established charges. The provision for contractual adjustments, which represents the difference between established charges and estimated third-party payor payments, is also recognized on an accrual basis and deducted from gross revenue to determine net revenues. Payment arrangements with third-party payors may include prospectively determined rates per discharge, a discount from established charges, per-diem payments and reimbursed costs. Estimates of contractual adjustments are reported in the period during which the services are provided and adjusted in future periods, as the actual amounts become known. Revenues recorded under cost-based reimbursement programs may be adjusted in future periods as a result of audits, reviews or investigations. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. Medicare and Medicaid net revenues represented 42%, 44% and 46% of net patient revenues for the years 2001, 2000 and 1999, respectively. In addition, approximately 37% in 2001, 35% in 2000 and 32% in 1999 of the Company's net patient revenues were generated from managed care companies, which include health maintenance organizations and preferred provider organizations.

The Company establishes an allowance for doubtful accounts to reduce its receivables to their net realizable value. The allowances are estimated by management based on general factors such as payor mix, the agings of the receivables and historical collection experience. At December 31, 2001 and 2000, accounts receivable were recorded net of allowance for doubtful accounts of $61.1 million and $65.4 million, respectively.

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

Concentration of Revenues: The three majority-owned facilities operating in the Las Vegas market contributed on a combined basis 16% of the Company's 2001 consolidated net revenues. The two facilities located in the McAllen/Edinburg, Texas market contributed, on a combined basis, 11% of the Company's 2001 consolidated net revenues.

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 $3.0 million and $453,000 of interest costs related to construction in progress in 2001 and 2000, respectively. No interest was capitalized in 1999.

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

Other Assets: During 1994, the Company established an employee life insurance program covering approximately 2,200 employees. The cash surrender value of the policies ($15.9 million at December 31, 2001 and $18.5 million at December 31, 2000) was recorded net of related loans ($15.8 million at December 31, 2001 and $18.4 million at December 31, 2000) and is included in other assets.

Included in other assets at December 31, 2001 are $70 million of deposits on acquisitions, ownership effective January 1, 2002.

Long-Lived Assets: It is the Company's policy to review the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Measurement of the impairment loss is based on the fair value of the asset. Generally, fair value will be determined using valuation techniques such as the present value of expected future cash flows.

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

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

Minority Interests Liabilities: As of December 31, 2001 and 2000, the $126.0 million and $120.8 million minority interests balance consists primarily of a 27.5% outside ownership interest in three acute care facilities located in Las Vegas, Nevada, a 20% outside ownership interest in an acute care facility located in Washington, DC and a 20% outside ownership interest in an operating company that owns nine hospitals in France.

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

The following table sets forth the computation of basic and diluted earnings per share, after $1.0 million after-tax extraordinary charge recorded in 2001, for the periods indicated:

	Twelve Months Ended December 31,		
	2001	2000	1999
	(in thousands, except per share data)		
Basic:			
Net income	$ 99,742	$93,362	$77,775
Average shares outstanding	59,874	60,220	62,834
Basic EPS	$ 1.67	$ 1.55	$ 1.24
Diluted:			
Net income	$ 99,742	$93,362	$77,775
Add discounted convertible debenture interest, net of income tax effect	8,120	4,092	--
Totals	$107,862	$97,454	$77,775
Average shares outstanding	59,874	60,220	62,834
Net effect of dilutive stock options and grants based on the treasury stock method	769	1,096	1,146
Assumed conversion of discounted convertible debentures	6,577	3,504	--
Totals	67,220	64,820	63,980
Diluted EPS	$ 1.60	$ 1.50	$ 1.22

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.

Cash and Cash Equivalents: The Company considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents. Interest expense in the consolidated statements of income is net of interest income of $1.9 million in 2001, $2.7 million in 2000, and $2.6 million in 1999.

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

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

Accounting for Derivative Instruments and Hedging Activities: Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", and its corresponding amendments under SFAS No. 138. SFAS No. 133 requires the Company to measure every derivative instrument (including certain derivative instruments embedded in other contracts) at fair value and record them in the balance sheet as either an asset or liability. Changes in

fair value of derivatives are recorded currently in earnings unless special hedge accounting criteria are met. For derivatives designated as fair value hedges, the changes in fair value of both the derivative instrument and the hedged item are recorded in earnings. For derivatives designated as cash flow hedges, the effective portions of changes in the fair value of the derivative are reported in other comprehensive income ("OCI"). The ineffective portions of hedges are recognized in earnings in the current period.

The Company formally assesses, both at inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. If it is determined that a derivative is not highly effective as a hedge or if a derivative ceases to be a highly effective hedge, the Company will discontinue hedge accounting prospectively.

The Company manages its ratio of fixed to floating rate debt with the objective of achieving a mix that management believes is appropriate. To manage this mix in a cost-effective manner, the Company, from time to time, enters into interest rate swap agreements, in which it agrees to exchange various combinations of fixed and/or variable interest rates based on agreed upon notional amounts. The Company's cash flow hedge at December 31, 2001 relates to the payment of variable interest on existing debt.

Foreign Currency: One of the Company's subsidiaries operates in France, whose currency is denominated in French francs. The French subsidiary translates its assets and liabilities into U.S. dollars at the current exchange rates in effect at the end of the fiscal period. The gains or losses that result from this process are shown in accumulated other comprehensive income in the shareholders' equity section of the balance sheet.

The revenue and expense accounts of the France subsidiary are translated into U.S. dollars at the average exchange rate that prevailed during the period. Therefore, the U.S. dollar value of these items on the income statement fluctuate from period to period, depending on the value of the dollar against foreign currencies.

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

For goodwill recorded prior to June 30, 2001, the Company will adopt the provisions of SFAS No. 141 and SFAS No. 142 as of January 1, 2002, and accordingly, goodwill will no longer be amortized after December 31, 2001. The Company will conduct an initial review of the goodwill balances for impairment within six months of adoption and annually thereafter. The Company's consolidated balance sheet at December 31, 2001 includes $373 million (net of $138 million of accumulated amortization expense) of goodwill recognized in connection with prior business combinations. In accordance with the provisions of these statements, the Company amortized this goodwill through the end of 2001, recognizing approximately $24.0 million of goodwill amortization expense for the year ended December 31, 2001. Amortization expense of other intangible assets for the year ended December 31, 2001 was $1.8 million. Total amortization expense for the years ended December 31, 2000 and 1999 was $21.6 million and $19.2 million, respectively.

While the Company has not yet completed all of the valuation and other work necessary to adopt these accounting standards, management believes that, except for the impact of discontinuing the amortization of goodwill, they will not have a material effect on the Company's financial statements.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". The Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. The Statement requires that the fair value of a liability for

an asset retirement obligation be recognized in the period in which it is incurred. The asset retirement obligations
will be capitalized as part of the carrying amount of the long-lived asset. The Statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and normal operation of long-lived assets. The Statement is effective for years beginning after June 15, 2002, with earlier adoption permitted. Management does not believe that this Statement will have a material effect on the Company's financial statements.

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

2) ACQUISITIONS AND DIVESTITURES

2001 -- During 2001, the Company spent $263 million to acquire the assets and operations of: (i) a 108-bed behavioral health care facility located in San Juan Capestrano, Puerto Rico; (ii) a 96-bed acute care facility located in Murrieta, California; (iii) two behavioral health care facilities located in Boston, Massachusetts; (iv) a 60-bed specialty heart hospital located in McAllen, Texas; (v) an 80% ownership interest in an operating company that owns nine hospitals located in France; (vi) two ambulatory surgery centers located in Nevada and Louisiana; (vii) a 150-bed acute care facility located in Lansdale, Pennsylvania (ownership effective January 1, 2002), and; (viii) a 117-bed acute care facility located in Lancaster, California (ownership effective January 1, 2002).

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

	Amount (000s)
Working capital, net	$ 5,000
Property, plant & equipment	95,000
Goodwill	87,000
Other assets	92,000
Debt	(9,000)
Other liabilities	(7,000)
Total Cash Purchase Price	$263,000

Management has not completed their final purchase price allocations at December 31, 2001. However, Management does not believe it will differ significantly from the preliminary purchase price allocations at December 31, 2001. The increase of $9 million in other working capital accounts at acquired facilities from their date of acquisition through December 31, 2001 consisted of the following:

	Amount (000s)
Accounts receivable	$19,000
Other working capital accounts	(2,000)
Other	(8,000)
Total working capital changes	$ 9,000

Assuming the acquisitions effective in 2001 had been completed as of January 1, 2001, the effect on the December 31, 2001 unaudited pro forma net revenues, net income and basic and diluted earnings per share would have been immaterial, as the majority of the acquisitions occurred early in 2001.

2000 -- During 2000, the Company spent $141 million to acquire the assets and operations of: (i) a 277-bed acute care facility located in Enid, Oklahoma; (ii) 12 behavioral health care facilities located in Pennsylvania, Delaware, Georgia, Kentucky, South Carolina, Tennessee, Mississippi, Utah and Texas; (iii) a 77-bed acute care facility located in Eagle Pass, Texas, and; (iv) the operations of a behavioral health care facility in Texas. In connection with the acquisition of the facility in Eagle Pass, Texas, the Company agreed to construct a new 100-bed facility scheduled to be completed and opened by the fourth quarter of 2006.

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

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

The increases of $24.2 million in other working capital accounts at acquired facilities from their date of acquisition through December 31, 2000 consisted of the following:

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

Assuming the above mentioned 2000 acquisitions had been completed as of January 1, 2000, the unaudited pro forma net revenues and net income for the year ended December 31, 2000 would have been approximately $2.4 billion and $100.4 million, respectively and the unaudited pro forma basic and diluted earnings per share would have been $1.67 and $1.62, respectively. Assuming the 2000 acquisitions had been completed as of January 1, 1999, the unaudited pro forma net revenues and net income for the year ended December 31, 1999 would have been approximately $2.3 billion and $90.1 million, respectively, and the unaudited pro forma basic and diluted earnings per share would have been $1.44 and $1.41, respectively.

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

1999 -- During 1999, the Company spent $27 million to acquire the assets and operations of three behavioral health care facilities located in Illinois, Indiana and New Jersey. Also during 1999, the Company exchanged the operations and assets of a 147-bed acute care facility located in Victoria, Texas for the assets and operations of a 117-bed acute care facility located in Laredo, Texas. No gain or loss resulted from this exchange transaction since the fair value of assets acquired was equal to the book value of assets surrendered. In connection with this transaction, the Company also spent $5 million to purchase additional land in Laredo, Texas on which it is constructing a replacement hospital which was completed and opened during the third quarter of 2001.

During 1999, the Company received total proceeds of $16 million generated primarily from the sale of the real property of two medical office buildings ($14 million). The net gain/loss resulting from these transactions was not material. One of these medical office buildings was sold to a limited liability company that is majority owned by Universal Health Realty Income Trust for cash proceeds of $13 million. The aggregate net purchase price of the facilities and land acquired, including the fair value of exchanged facility, was allocated to assets and liabilities based on their estimated fair values as follows:

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

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

3) FINANCIAL INSTRUMENTS

Fair Value Hedges: Upon the January 1, 2001 adoption of SFAS No. 133 the Company recorded an increase of $3.3 million in other assets to recognize at fair value its derivative that is designated as a fair-value hedging instrument and $3.3 million of long term debt to recognize the difference between the carrying value and fair value of the related hedged liability. During the third quarter of 2001, the counter-party to this fair-value interest rate swap with a notional principal amount of $135 million, elected to terminate the interest rate swap. This swap was a designated fair value hedge to the Company's $135 million 8.75% senior notes (the "Senior Notes") that were redeemed in October, 2001. The termination resulted in a net payment to the Company of approximately $3.8 million. Upon the termination of the fair value hedge, the Company ceased adjusting the fair value of the debt. The effective interest method was used to amortize the resulting difference between the fair value at termination and the face value of the debt through the maturity date of the Senior Notes. In connection with the redemption of the Senior Notes, the Company recorded a pre-tax net loss on debt extinguishment of $1.6 million during the fourth quarter of 2001.

In November 2001, the Company entered into two floating rate swaps having a notional principal amount of $60 million in which the company receives a fixed rate of 6.75% and pays a floating rate equal to 6 month LIBOR plus a spread. The term of these swaps is ten years and they are both scheduled to expire on November 15, 2011. As of December 31, 2001, the average floating rate of the $60 million of interest rate swaps was 3.43%. At December 31, 2001, the Company recorded an increase of $1.5 million in other non-current liabilities to recognize the fair value of these swaps and a $1.5 million decrease of long term debt to recognize the difference between the carrying value and fair value of the related hedged liability.

Cash Flow Hedges: Upon the January 1, 2001 adoption of SFAS No. 133, the Company recorded a pre-tax cumulative effect of an accounting change of approximately $7.6 million in other comprehensive loss ($4.8 million after-tax), recorded during the quarter ended March 31, 2001, to recognize at fair value all derivatives that are designated as cash flow hedging instruments. To recognize the change in fair value during the year the Company recorded, in OCI, a pre-tax charge of $2.2 million ($1.5 million after-tax). The gains or losses are reclassified into earnings as the underlying hedged item affects earnings, such as when the forecast interest payment occurs. Assuming market interest rates remain unchanged from December 31, 2001, it is expected that $5.7 million of pre-tax net losses in accumulated OCI will be reclassified into earnings within the next twelve months. The Company also recorded an after-tax charge of approximately $200,000 during the year to recognize the ineffective portion of the cash flow hedging instruments. As of December 31, 2001, the maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions is through August 2005.

The Company had a fixed rate swap having a notional principal amount of $135 million whereby the Company pays a fixed rate of 6.76% and receives a floating rate from the counter-party. During 2001, the notional amount of this swap was reduced to $125 million. The Company had two interest rate swaps to fix the rate of interest on a total notional principal amount of $75 million with a maturity date of August, 2005. The average fixed rate on the $75 million of interest rate swaps, including the Company's borrowing spread of .35%, was 7.05%. The total cost of all swaps terminated in 2001 was $7.4 million. This amount was reclassified from accumulated other comprehensive loss due to the probability of the original forecasted interest payments not occurring.

As of December 31, 2001, the Company has one fixed rate swap with a notional principal amount of $125 million which expires in August 2005. The Company pays a fixed rate of 6.76% and receives a floating rate equal to three month LIBOR. As of December 31, 2001, the floating rate of the $125 million of interest rate swaps was 2.01%.

Foreign Currency Risk: In connection with the Company's first quarter of 2001 purchase of a 80% ownership interest in an operating company that owns hospitals in France, the Company extended an intercompany loan denominated in francs. During the first quarter of 2001, the Company recorded a $1.3 million pre-tax loss ($800,000 after-tax), resulting from foreign exchange fluctuations related to this intercompany loan. During the second quarter of 2001, the Company entered into certain forward exchange contracts to hedge the exposure associated with foreign currency fluctuations on the intercompany loan. These contracts are not designated as hedging instruments and changes in the fair value of these items are recorded in earnings to offset the foreign exchange gains and losses of the intercompany loan. The effect of the change in fair value of the contract for the year ended December 31, 2001 was a loss of $200,000 which offset a $200,000 exchange gain on the intercompany loan.

4) LONG-TERM DEBT

A summary of long-term debt follows:

	December 31	
	2001	2000
	(000s)	
Long-term debt:		
Notes payable and Mortgages payable (including obligations under capitalized leases of $11,919 in 2001 and $2,821 in 2000) with varying maturities through 2006; weighted average interest at 6.8% in 2001 and 7.9% in 2000 (see Note 7 regarding capitalized leases)	$ 18,061	$ 2,869
Revolving credit and demand notes	121,000	37,955
Commercial paper	100,000	100,000
Revenue bonds: Interest at floating rates ranging from 1.6% to 1.8% at December 31, 2001 with varying maturities through 2015	18,200	18,200
8.75% Senior Notes due 2005, net of the unamortized discount of $510 in 2000	--	134,490
5.00% Convertible Debentures due 2020, net of the unamortized discount of $321,430 in 2001 and $331,753 in 2000	265,562	255,239
6.75% Senior Notes due 2011, net of the unamortized discount of $102, and FMV debt adjustment of $1,455 in 2001	198,443	--
	721,266	548,753
Less-Amounts due within one year	2,436	689
	$718,830	$548,064

During 2001, the Company issued $200 million of Senior Notes which have a 6.75% coupon rate and which mature on November 15, 2011 (the "Notes"). The interest on the Notes is paid semiannually on May 15 and November 15 of each year. The Notes can be redeemed in whole at any time and in part from time to time. The Company also fully redeemed $135 million of Senior Notes, at par, which had an 8.75% coupon rate and which were scheduled to mature on August 15, 2005. In connection with the redemption of the Senior Notes, the Company recorded a pre-tax net loss on debt extinguishment of $1.6 million during the fourth quarter of 2001.

Also during 2001, the Company entered into a new $400 million unsecured non-amortizing revolving credit agreement, which expires on December 13, 2006. The agreement includes a $50 million sublimit for letters of credit of which $40 million was available at December 31, 2001. The interest rate on borrowings is determined at the Company's option at the prime rate, certificate of deposit rate plus .925% to 1.275%, Euro-dollar plus .80% to 1.150% or a money market rate. A facility fee ranging from .20% to .35% is required on the total commitment. The margins over the certificate of deposit, the Euro-dollar rates and the facility fee are based upon the Company's leverage ratio. At December 31, 2001, the applicable margins over the certificate of deposit and the Euro-dollar rate were 1.125% and 1.00%, respectively, and the commitment fee was .25%. There are no compensating balance requirements. At December 31, 2001, the Company had $269 million of unused borrowing capacity available under the revolving credit agreement.

The Company also has a $100 million commercial paper credit facility. A large portion of the Company's acute care patient accounts receivable are pledged as collateral to secure this commercial paper program. A commitment fee of .40% is required on the used portion and .20% on the unused portion of the commitment. This annually renewable program, which began in November 1993, is scheduled to expire or be renewed in October of each year. Outstanding amounts of commercial paper which can be refinanced through available borrowings under the Company's revolving credit agreement are classified as long-term. As of December 31, 2001, the Company had no unused borrowing capacity under the terms of the commercial paper facility.

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

The average amounts outstanding during 2001, 2000, and 1999 under the revolving credit and demand notes and commercial paper program were $220.0 million, $170.0 million and $246.1 million, respectively, with corresponding effective interest rates of 5.1%, 7.4% and 6.2% including commitment and facility fees. The maximum amounts outstanding at any month-end were, $343.9 million in 2001, $270.9 million in 2000 and $263.9 million in 1999.

The effective interest rate on the Company's revolving credit, demand notes and commercial paper program, including the interest rate swap expense and income incurred on existing and now expired interest rate swaps, was 6.4%, 7.1% and 6.2% during 2001, 2000 and 1999, respectively. Additional interest (expense)/income recorded as a result of the Company's hedging activity was ($2,730,000) in 2001, $414,000 in 2000 and ($202,000) in 1999. The Company is exposed to credit loss in the event of non-performance by the counter-party to the interest rate swap agreements. All of the counter-parties are creditworthy financial institutions rated AA or better by Moody's Investor Service and the Company does not anticipate non-performance. The estimated fair value of the cost to the Company to terminate the interest rate swap obligations at December 31, 2001 and 2000 was approximately $11.7 million and $4.3 million, respectively.

Covenants relating to long-term debt require maintenance of a minimum net worth, specified debt to total capital and fixed charge coverage ratios. The Company is in compliance with all required covenants as of December 31, 2001.

The fair value of the Company's long-term debt at December 31, 2001 and 2000 was approximately $751.5 million and $693.3 million, respectively.

Aggregate maturities follow:

	(000s)
2002	$ 2,436
2003	3,055
2004	1,951
2005	1,894
2006	222,525
Later	810,835
Total	$1,042,696
Less: Discount on Convertible Debentures	(321,430)
Net total	$ 721,266

5) COMMON STOCK

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

During 1998 and 1999, the Company's Board of Directors approved stock purchase programs authorizing the Company to purchase up to twelve million shares of its outstanding Class B Common Stock on the open market at prevailing market prices or in negotiated transactions off the market. Pursuant to the terms of these programs, the Company purchased 4,056,758 shares at an average purchase price of $17.55 per share ($71.2 million in the aggregate) during 1999, 2,408,000 shares at an average purchase price of $14.95 per share ($36.0 million in the aggregate) during 2000 and 178,057 shares at an average purchase price of $43.33 per share ($7.7 million in the aggregate) during 2001. Since inception of the stock purchase program in 1998 through December 31, 2001, the Company purchased a total of 7,803,815 shares at an average purchase price of $17.91 per share ($139.8 million in the aggregate).

At December 31, 2001, 15,008,672 shares of Class B Common Stock were reserved for issuance upon conversion of shares of Class A, C and D Common Stock outstanding, for issuance upon exercise of options to purchase Class B Common Stock, for issuance upon conversion of the Company's discounted Convertible Debentures and for issuance of stock under other incentive plans. Class A, C and D Common Stock are convertible on a share for share basis into Class B Common Stock.

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

	Year Ended December 31		
	2001	2000	1999
	(000s, except per share amounts)		
Net Income:			
As Reported	$99,742	$93,362	$77,775
Pro Forma	$91,442	$90,199	$75,298
Earnings Per Share:			
As Reported:			
Basic	$ 1.67	$ 1.55	$ 1.24
Diluted	$ 1.60	$ 1.50	$ 1.22
Pro Forma:			
Basic	$ 1.53	$ 1.50	$ 1.20
Diluted	$ 1.48	$ 1.45	$ 1.17

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following range of assumptions used for the twelve option grants that occurred during 2001, 2000 and 1999:

Year Ended December 31	2001	2000	1999
Volatility	21%-49%	21%-44%	21%-38%
Interest rate	4%-6%	5%-7%	5%-6%
Expected life (years)	3.8	3.7	4.3
Forfeiture rate	7%	1%	3%

Stock-based compensation costs on a pro forma basis would have reduced pretax income by $13.0 million ($8.3 million after tax) in 2001, $5.1 million ($3.2 million after tax) in 2000 and $4.0 million ($2.5 million after tax) in 1999.

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, 1999	3,185,124	$14.30	$28.28-$ 4.90
Granted	1,282,660	$16.25	$25.56-$11.85
Exercised	(935,174)	$ 5.76	$20.63-$ 4.90
Cancelled	(127,700)	$20.70	$26.00-$ 8.28
Balance, January 1, 2000	3,404,910	$17.14	$28.28-$ 7.32
Granted	529,000	$23.05	$33.72-$22.28
Exercised	(1,455,740)	$13.81	$28.28-$ 7.32
Cancelled	(94,126)	$21.54	$28.28-$11.85
Balance, January 1, 2001	2,384,044	$20.32	$33.72-$11.85
Granted	2,051,200	$42.23	$42.65-$37.82
Exercised	(318,525)	$21.38	$33.72-$11.85
Cancelled	(298,750)	$31.35	$42.41-$11.85
Balance, December 31, 2001	3,817,969	$31.14	$42.65-$11.85

Outstanding Options at December 31, 2001:

Number of Shares	Average Option Price	Range (High-Low)	Contractual Life
1,883,269	$20.2768	$28.2813-$11.8438	2.3
1,934,700	$33.8594	$42.6500-$33.7188	4.1
3,817,969			

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, 2001 have an average remaining contractual life of 3.2 years. At December 31, 2001, options for 2,301,114 shares were available for grant. At December 31, 2001, options for 830,814 shares of Class B Common Stock with an aggregate purchase price of $17.0 million (average of $20.44 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 $11.6 million in 2001, $6.5 million in 2000 and $7.6 million in 1999 in connection with this loan program.

In addition to the stock option plan the Company has the following stock incentive and purchase plans: (i) a Stock Compensation Plan which expires in November, 2004 under which Class B Common Shares may be granted to key employees, consultants and independent contractors (officers and directors are ineligible); (ii) a Stock Ownership Plan whereby eligible employees may purchase shares of Class B Common Stock directly from the Company at current market value and the Company will loan each eligible employee 90% of the purchase price for the shares, subject to certain limitations, (loans are partially recourse to the employees); (iii) a Restricted Stock Purchase Plan which allows eligible participants to purchase shares of Class B Common Stock at par value, subject to certain restrictions, and; (iv) a Stock Purchase Plan which allows eligible employees to purchase shares of Class B Common Stock at a ten percent discount. The Company has reserved 4.5 million shares of Class B Common Stock for issuance under these various plans and has issued 2.3 million shares pursuant to the terms of these plans as of December 31, 2001, of which 3,542, 54,076 and 115,360 became fully vested during 2001, 2000 and 1999, respectively. Compensation expense of $1.0 million in 2001, $300,000 in 2000 and $1.1million in 1999 was recognized in connection with these plans.

6) INCOME TAXES

Components of income tax expense are as follows:

	Year Ended December 31		
	2001	2000	1999
	(000s)		
Currently payable			
Federal and foreign	$ 66,122	$35,506	$48,558
State	5,851	3,217	4,449
	71,973	38,723	53,007
Deferred			
Federal	(13,622)	12,884	(7,350)
State	(1,204)	1,139	(649)
	(14,826)	14,023	(7,999)
Total	$ 57,147	$52,746	$45,008

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	
	2001	2000
	(000s)	
Self-insurance reserves	$ 40,730	$ 26,475
Doubtful accounts and other reserves	(11,063)	(9,393)
State income taxes	321	(712)
Other deferred tax assets	23,141	21,057
Depreciable and amortizable assets	(56,741)	(55,865)
Total deferred taxes	$ (3,612)	$(18,438)

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

	Year Ended December 31		
	2001	2000	1999
Federal statutory rate	35.0%	35.0%	35.0%
Deductible depreciation, amortization and other	(0.7)	(0.8)	(0.2)
State taxes, net of federal income tax benefit	1.9	1.9	1.9
Effective tax rate	36.2%	36.1%	36.7%

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

	Year Ended December 31	
	2001	2000
	(000s)	
Current deferred taxes		
Assets	$ 36,290	$ 27,114
Liabilities	(11,063)	(9,171)
Total deferred taxes-current	25,227	17,943
Noncurrent deferred taxes		
Assets	27,902	20,418
Liabilities	(56,741)	(56,799)
Total deferred taxes-noncurrent	(28,839)	(36,381)
Total deferred taxes	$ (3,612)	$(18,438)

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

7) 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 9). 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	
	2001	2000
	(000s)	
Land, buildings and equipment	$ 31,902	$ 25,563
Less: accumulated amortization	(23,140)	(22,994)
	$ 8,762	$ 2,569

Future minimum rental payments under lease commitments with a term of more than one year as of December 31, 2001, are as follows:

Year	Capital Leases	Operating Leases
	(000s)	
2002	$ 2,996	$ 30,926
2003	3,100	26,508
2004	2,255	22,896
2005	2,055	16,502
2006	1,613	13,622
Later Years	1,503	5,912
Total minimum rental	$13,522	$116,366
Less: Amount representing interest	1,603	
Present value of minimum rental commitments	11,919	
Less: Current portion of capital lease obligations	2,443	
Long-term portion of capital lease obligations	$ 9,476	

Capital lease obligations of $10.6 million in 2001, $1.9 million in 2000 and $1.1 million in 1999 were incurred when the Company entered into capital leases for new equipment.

8) COMMITMENTS AND CONTINGENCIES

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

In February of 2002, PHICO was placed in liquidation by the Pennsylvania Insurance Commissioner and as a result, the Company recorded a pre-tax charge to earnings of $40 million during the fourth quarter of 2001 to reserve for malpractice expenses that may result from PHICO's liquidation. PHICO continues to have substantial liability to pay claims on behalf of the Company and although those claims could become the Company's liability, the Company may be entitled to receive reimbursement from state insurance guaranty funds and/or PHICO's estate for a portion of certain claims ultimately paid by the Company. The Company expects that the cash payments related to these claims will be made over the next eight years as the cases are settled or

adjudicated. In estimating the $40 million pre-tax charge, the Company evaluated all known factors, however, there can be no assurance that the Company's ultimate liability will not be materially different than the estimated charge recorded. Additionally, if the ultimate PHICO liability assumed by the Company is substantially greater than the established reserve, there can be no assurance that the additional amount required will not have a material adverse effect on the Company's future results of operations.

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

As of December 31, 2001 and 2000, the reserve for professional and general liability claims was $104.1 million and $57.9 million, respectively, of which $26.0 million and $9.0 million in 2001 and 2000, respectively, is included in other 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 financial guarantees totaling $57.4 million consisting of: (i) a $40 million surety bond related to the Company's 1997 acquisition of an 80% interest in the George Washington University Hospital; (ii) $11.5 million related to the Company's self insurance programs; (iii) $4.7 million as support for a loan guarantee for an unaffiliated party, and; (iv) $1.2 million as support for various debt instruments.

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

During 1999, the Company decided to close and divest one of its specialized women's health centers and as a result, the Company recorded a $5.3 million charge to reduce the carrying value of the facility to its estimated realizable value of approximately $9 million, based on an independent appraisal. A jury verdict unfavorable to the Company was rendered during the fourth quarter of 2000 with respect to litigation regarding the closing of this facility. Accordingly, during the fourth quarter of 2000, the Company recognized a charge of $7.7 million to reflect the amount of the jury verdict and a reserve for future legal costs and in February of 2001, this unprofitable facility was closed. During 2001, an appellate court issued an opinion affirming the jury verdict and during the first quarter of 2002, the Company filed a petition for review by the state supreme court. In addition, various suits and claims arising in the ordinary course of business are pending against the Company. In the opinion of management, the outcome of such claims and litigation will not materially affect the Company's consolidated financial position or results of operations.

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

The Health Insurance Portability and Accountability Act (HIPAA) was enacted in August, 1996 to assure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health

information and enforce standards for health information. Generally, organizations are required to be in compliance with certain HIPAA provisions beginning in October, 2002. Provisions not yet finalized are required to be implemented two years after the effective date of the regulation. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. The Company is in the process of implementation of the necessary changes required pursuant to the terms of HIPAA. The Company expects that the implementation cost of the HIPAA related modifications will not have a material adverse effect on the Company's financial condition or results of operations.

9) RELATED PARTY TRANSACTIONS

At December 31, 2001, the Company held approximately 6.6% of the outstanding shares of Universal Health Realty Income Trust (the "Trust"). The Company serves as Advisor to the Trust under an annually renewable advisory agreement. Pursuant to the terms of this advisory agreement, the Company conducts the Trust's day to day affairs, provides administrative services and presents investment opportunities. In addition, certain officers and directors of the Company are also shareholders, officers and/or directors of the Trust. Management believes that it has the ability to exercise significant influence over the Trust, therefore the Company accounts for its investment in the Trust using the equity method of accounting. The Company's pre-tax share of income from the Trust was $1.3 million for the year ended December 31, 2001, $1.2 million for the year ended December 31, 2000 and $1.1 million for the year ended December 31, 1999, and is included in net revenues in the accompanying consolidated statements of income. The carrying value of this investment was $9.0 million at both December 31, 2001 and 2000 and is included in other assets in the accompanying consolidated balance sheets. The market value of this investment was $18.0 million at December 31, 2001 and $15.1 million at December 31, 2000.

As of December 31, 2001, the Company leased six hospital facilities from the Trust with terms expiring in 2003 through 2006. These leases contain up to five 5-year renewal options. During 2001, the Company exercised the five-year renewal option on an acute care hospital leased from the Trust which was scheduled to expire in 2001. The lease on this facility was renewed at the same lease rate and term as the initial lease. Future minimum lease payments to the Trust are included in Note 7. Total rent expense under these operating leases was $16.5 million in 2001, $17.1 million in 2000, and $16.6 million in 1999. 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 from the Trust of $1.3 million in both 2001 and 2000 and $1.2 million in 1999 for investment and administrative services provided under a contractual agreement which is included in net revenues in the accompanying consolidated statements of income.

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

A member of the Company's Board of Directors and member of the Board's Compensation Committee is Of Counsel to the law firm used by the Company as its principal outside counsel. This Board member is also the trustee of certain trusts for the benefit of the Chief Executive Officer and his family. This law firm also provides personal legal services to the Company's Chief Executive Officer. Another member of the Company's Board of Directors and member of the Board's Compensation Committee is Senior Vice Chairman and Managing Director of Corporate Finance in the Americas of the investment banking firm used by the Company as one of its Initial Purchasers for the Convertible Debentures issued in 2000.

10) PENSION PLAN

The Company maintains contributory and non-contributory retirement plans for eligible employees. The Company's contributions to the contributory plan amounted to $6.2 million, $4.7 million, and $4.2 million in 2001, 2000 and 1999, 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, 2001 and 2000:

	(000s)	
	2001	2000
Change in benefit obligation:		
Benefit obligation at beginning of year	$49,754	$46,455
Service cost	923	921
Interest cost	3,667	3,428
Benefits paid	(1,810)	(1,589)
Actuarial loss	1,566	539
Benefit obligation at end of year	$54,100	$49,754
Change in plan assets:		
Fair value of plan assets at beginning of year	$53,329	$52,967
Actual return on plan assets	(873)	2,123
Benefits paid	(1,810)	(1,589)
Administrative expenses	(190)	(171)
Fair value of plan assets at end of year	$50,456	$53,330
Funded status of the plan	$(3,644)	$ 3,576
Unrecognized actuarial loss/(gain)	2,607	(4,745)
Net amount recognized	(1,037)	(1,169)
Total amounts recognized in the balance sheet consist of:		
Accrued benefit liability	$(1,037)	$(1,169)
Weighted average assumptions as of December 31		
Discount rate	7.25%	7.50%
Expected long-term rate of return on plan assets	9.00%	9.00%
Rate of compensation increase	4.00%	4.00%

	(000s)		
	2001	2000	1999
Components of net periodic benefit cost			
Service cost	$ 923	$ 921	$ 1,041
Interest cost	3,667	3,428	3,280
Expected return on plan assets	(4,723)	(4,700)	(4,530)
Recognized actuarial gain	--	(413)	--
Net periodic benefit	$ (133)	$ (764)	$ (209)

The fair value of plan assets exceeded the accumulated benefit obligations of the plan, as of December 31, 2001 and 2000, respectively.

11) SEGMENT REPORTING

The Company's reportable operating segments consist of acute care services and behavioral health care services. The "Other" segment column below includes centralized services including information services, pur-chasing, reimbursement, accounting, taxation, legal, advertising, design and construction, and patient accounting as well as the operating results of the Company's other operating entities including outpatient surgery and radiation centers and an 80% ownership interest in an operating company that owns nine hospitals located in France. The chief operating decision making group for the Company's acute care services and behavioral health care services located in the U.S. and Puerto Rico is comprised of the Company's President and Chief Executive Officer, and the lead executives of each of the Company's two primary operating segments. The lead executive for each operating segment also manages the profitability of each respective segment's various hospitals. The acute care and behavioral health services' operating segments are managed separately because each operating segment represents a business unit that offers different types of healthcare services. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

	(Dollar amounts in thousands)			
2001	Acute Care Services	Behavioral Health Services	Other	Total Consolidated
Gross inpatient revenues	$4,032,623	$908,424	$ 53,725	$4,994,772
Gross outpatient revenues	$1,432,232	$143,907	$145,398	$1,721,537
Total net revenues	$2,182,052	$538,443	$119,996	$2,840,491
Operating income(a)	$ 389,179	$102,502	$(49,760)	$ 441,921
Total assets	$1,488,979	$274,013	$351,592	$2,114,584
Licensed beds	5,514	3,732	720	9,966
Available beds	4,631	3,588	720	8,939
Patient days	1,123,264	950,236	205,345	2,278,845
Admissions	237,802	78,688	47,420	363,910
Average length of stay	4.7	12.1	4.3	6.3

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

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

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

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

	(amount in thousands) 2001	2000	1999
Consolidated operating income	$441,921	$359,325	$318,568
Less: Depreciation & amortization	127,523	112,809	108,333
Lease & rental expense	53,945	49,039	49,029
Interest expense, net	36,176	29,941	26,872
Provision for insurance settlements	40,000	--	--
Facility closure costs	--	7,747	5,300
Minority interests in earnings of consolidated entities	17,518	13,681	6,251
Losses on foreign exchange and derivative transactions	8,862	--	--
Consolidated income before income taxes and extraordinary charge	$157,897	$146,108	$122,783

12) QUARTERLY RESULTS

The following tables summarize the Company's quarterly financial data for the two years ended December 31, 2001:

2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(000s, except per share amounts)			
Net revenues	$676,949	$718,596	$720,784	$724,162
Income before income taxes and extraordinary charge	$ 56,923	$ 50,888	$ 47,519	$ 2,567
Net income	$ 36,171	$ 32,390	$ 30,254	$ 927
Earnings per share after extraordinary charge--basic	$ 0.60	$ 0.54	$ 0.50	$ 0.02
Earnings per share after extraordinary charge--diluted	$ 0.57	$ 0.51	$ 0.48	$ 0.02

Net revenues in 2001 include $32.6 million of additional revenues received from special Medicaid reimbursement programs in Texas and South Carolina. Of this amount, $6.4 million was recorded in the first quarter, $9.1 million in the second quarter, $8.8 million in the third quarter and $8.3 million in the fourth quarter. These amounts were recorded in periods that the Company met all of the requirements to be entitled to these reimbursements. Failure to renew these programs, which are scheduled to terminate in the third quarter of 2002,

or reductions in reimbursements, could have a material adverse effect on the Company's future results of operations. Included in the Company's results for the fourth quarter of 2001 are the following charges: (i) a $40.0 million pre-tax charge ($.38 per diluted share after-tax) to reserve for malpractice expenses that may result from the liquidation of the Company's third party malpractice insurance company (PHICO); (ii) a $7.4 million pre-tax charge ($.07 per diluted share after-tax) resulting from the early termination of interest rate swaps, and; (iii) a $1.6 million pre-tax charge ($.01 per diluted share after-tax) from the early extinguishment of debt.

	(000s, except per share amounts)			
2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net revenues	$541,004	$524,828	$561,790	$614,822
Income before income taxes and extraordinary charge	$ 44,248	$ 36,423	$ 35,172	$ 30,265
Net income	$ 28,629	$ 23,309	$ 22,335	$ 19,089
Earnings per share after extraordinary charge--basic	$ 0.47	$ 0.39	$ 0.37	$ 0.32
Earnings per share after extraordinary charge--diluted	$ 0.46	$ 0.38	$ 0.36	$ 0.31

Net revenues in 2000 include $28.9 million of additional revenues received from special Medicaid reimbursement programs in Texas and South Carolina. Of this amount, $7.7 million was recorded in each of the first and second quarters, $7.6 million in the third quarter and $5.9 million in the fourth quarter. These amounts were recorded in periods that the Company met all of the requirements to be entitled to these reimbursements. During the fourth quarter of 2000, the Company recognized a non-recurring charge of $7.7 million ($.08 per diluted share after-tax) to reflect an unfavorable jury verdict and remaining legal costs incurred in connection with the closure of an unprofitable women's health center.

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, 2001.....	$65,358	$240,025	$ 857	$(245,132)	$61,108
Year ended December 31, 2000.....	$55,686	$192,625	$6,651	$(189,604)	$65,358
Year ended December 31, 1999.....	$60,480	$166,139	$8,956	$(179,889)	$55,686

Exhibit 4.2

RESOLUTIONS OF THE PRICING COMMITTEE OF

THE BOARD OF DIRECTORS OF

UNIVERSAL HEALTH SERVICES, INC.

* * * * *

RESOLVED, that the form, terms and provisions of the Purchase Agreement between the Company and Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities Inc., UBS Warburg LLC and Banc of America Securities LLC (the "Initial Purchasers") providing for the purchase of $525,000,000 aggregate principal amount at maturity of the Company's convertible debentures due 2020 (the "Debentures") by the Initial Purchasers from the Company and granting such Initial Purchasers an over-allotment option for the purchase from the Company of up to an additional $61,992,000 principal amount at maturity of such Debentures (including the form, terms and provisions of the Registration Rights Agreement between the Company and the Initial Purchasers attached thereto as Exhibit A), a copy of which is attached hereto as Exhibit A, be, and hereby is, in all respects approved; and it is further

RESOLVED, that (a) the maturity date of the Debentures shall be June 23, 2020, (b) the Debentures shall be unsecured and unsubordinated obligations and will rank equally in right of payment with all of the Company's existing and future unsecured and unsubordinated indebtedness, (c) the Debentures shall accrue original issue discount while they remain outstanding which will begin to accrue on the issue date of the Debentures, (d) interest on the Debentures at the rate of .426% per year on the principal amount at maturity will be payable semiannually in arrears on June 23 and December 23 of each year, beginning December 23, 2000, in accordance with the Indenture, (e) the yield to maturity of the Debentures will be 5.00% per year, computed on a semiannual bond equivalent basis, calculated from June 23, 2000, (e) the Debentures shall be subject to optional redemption (as defined in the Indenture) by the Company on or after June 23, 2006, at redemption prices equal to the issue price of the debentures ($425.90) plus accrued original issue discount and accrued cash interest to the date of redemption, (f) the Debentures shall be subject to optional conversion (as defined in the Indenture) by the holder into 5.6024 shares of class B common stock per Debenture, or, at our option, cash in an amount equal to the value of such shares (such conversion rate being subject to adjustment in accordance with the terms of the Indenture), at any time before the

FACE OF SECURITY

FOR PURPOSES OF SECTIONS 1273 AND 1275 OF THE INTERNAL REVENUE CODE, THE AMOUNT OF ORIGINAL ISSUE DISCOUNT WITH RESPECT TO EACH $1,000 OF PRINCIPAL AMOUNT AT MATURITY OF THIS SECURITY IS $574.10, THE ISSUE DATE IS JUNE 23, 2000, THE YIELD TO MATURITY IS 5.00%.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF THE DEPOSITORY TRUST COMPANY, OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN ARTICLE TWO OF THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

THIS SECURITY AND THE SHARES OF CLASS B COMMON STOCK ISSUABLE UPON CONVERSION OF THIS SECURITY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NEITHER THIS SECURITY, THE SHARES OF CLASS B COMMON STOCK ISSUABLE UPON CONVERSION OF THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN OR THEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES TO OFFER, SELL, OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE"), WHICH IS TWO YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH UNIVERSAL HEALTH SERVICES, INC. (THE "COMPANY") OR ANY AFFILIATE OF THE COMPANY WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) ONLY (A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, (B) FOR SO LONG AS THIS SECURITY AND THE SHARES OF CLASS B COMMON STOCK ISSUABLE UPON CONVERSION OF THIS SECURITY ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY

BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHICH NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (C) TO AN INSTITUTIONAL "ACCREDITED INVESTOR" WITHIN THE MEANING OF SUBPARAGRAPH (A)(1), (2),(3) OR (7) OF RULE 501 UNDER THE SECURITIES ACT THAT IS ACQUIRING THE SECURITY FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF SUCH AN INSTITUTIONAL "ACCREDITED INVESTOR," FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO, OR FOR OFFER OR SALE IN CONNECTION WITH, ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, (D) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (E) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (F) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (C), (E) OR (F) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND IN EACH OF THE FOREGOING CASES, A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

[THE FOREGOING LEGEND MAY BE REMOVED FROM THIS SECURITY ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE INDENTURE.]

UNIVERSAL HEALTH SERVICES, INC.
Convertible Debentures due 2020

No. R-1
Issue Date: June 23, 2000
Issue Price: $425.90
(for each $1,000 Principal Amount at Maturity)

CUSIP: 913903AJ9
Original Issue Discount: $574.10
(for each $1,000 Principal Amount at Maturity)

UNIVERSAL HEALTH SERVICES, INC., a Delaware corporation, promises to pay to Cede & Co. or registered assigns, the Principal Amount at Maturity of FOUR HUNDRED MILLION DOLLARS ($400,000,000) on June 23, 2020.

This Security shall bear interest as specified on the other side of this Security. Original Issue Discount will accrue as specified on the other side of this Security. This Security is convertible as specified on the other side of this Security.

Additional provisions of this Security are set forth on the other side of this Security.

Dated: _____

UNIVERSAL HEALTH SERVICES, INC.

By

Title:

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

BANK ONE TRUST COMPANY, N.A., as Trustee, certifies that this is one of the Securities referred to in the within-mentioned Indenture (as defined on the other side of this Security).

By

Authorized Signatory

Dated: _____

UNIVERSAL HEALTH SERVICES, INC.
Convertible Debentures due 2020

No. R-2
Issue Date: June 23, 2000
Issue Price: $425.90
(for each $1,000 Principal
Amount at Maturity)

CUSIP: 913903AJ9
Original Issue Discount: $574.10
(for each $1,000 Principal
Amount at Maturity)

UNIVERSAL HEALTH SERVICES, INC., a Delaware corporation, promises to pay to Cede & Co. or registered assigns, the Principal Amount at Maturity of ONE HUNDRED EIGHTY SIX MILLION AND NINE HUNDRED NINETY TWO THOUSAND DOLLARS ($186,992,000) on June 23, 2020.

This Security shall bear interest as specified on the other side of this Security. Original Issue Discount will accrue as specified on the other side of this Security. This Security is convertible as specified on the other side of this Security.

Additional provisions of this Security are set forth on the other side of this Security.

Dated: _____

UNIVERSAL HEALTH SERVICES, INC.

By

Title:

TRUSTEE'S CERTIFICATE OF
AUTHENTICATION

BANK ONE TRUST COMPANY, N.A.,
as Trustee, certifies that this
is one of the Securities referred
to in the within-mentioned Indenture (as
defined on the other side of this Security).

By

Authorized Signatory

Dated: _____

REVERSE SIDE OF SECURITY

Convertible Debentures Due 2020

1. Cash Interest; Original Issue Discount.

The Company promises to pay interest in cash on the Principal Amount at Maturity of this Security at the rate per annum of 0.426%. The Company will pay cash interest semiannually in arrears on June 23 and December 23 of each year (each an "Interest Payment Date") to Holders of record at the close of business on each June 8 or December 8 (whether or not a business day) (each a "Regular Record Date") immediately preceding such Interest Payment Date. Cash interest on the Securities will accrue from the most recent date to which interest has been paid or duly provided or, if no interest has been paid, from the Issue Date. Cash interest will be computed on the basis of a 360-day year of twelve 30-day months. The Company shall pay cash interest on overdue principal, or if shares of Class B Common Stock (or cash in lieu of fractional shares) in respect of a conversion of this Security in accordance with the terms of Article 11 of the Indenture are not delivered when due, at the rate borne by the Securities plus 1% per annum, and it shall pay interest in cash on overdue installments of cash interest at the same rate to the extent lawful. All such overdue cash interest shall be payable on demand.

Original Issue Discount (the difference between the Issue Price and the Principal Amount at Maturity of the Security), in the period during which a Security remains outstanding, together with regular cash interest, shall accrue at 5.00% per annum, on a semiannual bond equivalent basis using a 360-day year composed of twelve 30-day months, from the Issue Date of this Security.

2. Method of Payment.

Subject to the terms and conditions of the Indenture, the Company will make payments in respect of the principal of, premium, if any, and cash interest on this Security and in respect of Redemption Prices, Purchase Prices and Change in Control Purchase Prices to Holders who surrender Securities to a Paying Agent to collect such payments in respect of the Securities. The Company will pay cash amounts in money of the United States that at the time of payment is legal tender for payment of public and private debts. However, the Company may make such cash payments by check payable in such money. Any payment required to be made on any day that is not a Business Day will be made on the next succeeding Business Day.

3. Paying Agent, Conversion Agent and Registrar.

Initially, Bank One Trust Company, N.A., a national banking association (the "Trustee"), will act as Paying Agent, Conversion Agent and Registrar. The Company may appoint and change any Paying Agent, Conversion Agent, Registrar or co-registrar without notice, other than notice to the Trustee except that the Company will maintain at least one Paying Agent in the State of New York, City of New York, Borough of Manhattan, which shall initially be an office or agency of the Trustee. The Company or any of its Subsidiaries or any of their Affiliates may act as Paying Agent, Conversion Agent, Registrar or co-registrar.

4. Indenture.

The Company issued the Securities under an Indenture dated as of June 23, 2000 (the "Indenture"), between the Company and the Trustee. The terms of the Securities include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as in effect from time to time (the "TIA"). Capitalized terms used herein and not defined herein have the meanings ascribed thereto in the Indenture. The Securities are subject to all such terms, and Securityholders are referred to the Indenture and the TIA for a statement of those terms.

The Securities are general unsecured obligations of the Company limited to $586,992,000 aggregate Principal Amount at Maturity (subject to Section 2.07 of the Indenture). The Indenture does not limit other indebtedness of the Company, secured or unsecured.

5. Redemption at the Option of the Company.

No sinking fund is provided for the Securities. The Securities are redeemable as a whole, or from time to time in part, at any time at the option of the Company at the Redemption Prices set forth below, provided that the Securities are not redeemable prior to June 23, 2006.

The table below shows Redemption Prices of a Security per $1,000 Principal Amount at Maturity on the dates shown below and at Stated Maturity, which prices reflect accrued Original Issue Discount calculated to each such date. The Redemption Price of a Security redeemed between such dates shall include an additional amount reflecting the additional Original Issue Discount accrued since the next preceding date in the table.

Redemption Date	(1) Issue Price	(2) Accrued Original Issue Discount	(3) Redemption Price (1) + (2)
June 23, 2006	$425.90	$117.51	$ 543.41
June 23, 2007	$425.90	$140.70	$ 566.60
June 23, 2008	$425.90	$165.07	$ 590.97
June 23, 2009	$425.90	$190.68	$ 616.58
June 23, 2010	$425.90	$217.58	$ 643.48
June 23, 2011	$425.90	$245.84	$ 671.74
June 23, 2012	$425.90	$275.53	$ 701.43
June 23, 2013	$425.90	$306.73	$ 732.63
June 23, 2014	$425.90	$339.51	$ 765.41
June 23, 2015	$425.90	$373.94	$ 799.84
June 23, 2016	$425.90	$410.12	$ 836.02
June 23, 2017	$425.90	$448.13	$ 874.03
June 23, 2018	$425.90	$488.06	$ 913.96
June 23, 2019	$425.90	$530.02	$ 955.92
At Stated Maturity	$425.90	$574.10	$1,000.00

If converted to a semiannual coupon debenture following the occurrence of a Tax Event, this Security will be redeemable at the Restated Principal Amount plus accrued and unpaid interest from the date of such conversion through the Redemption Date; but in no event will this Security be redeemable before June 23, 2006.

6. Purchase By the Company at the Option of the Holder.

Subject to the terms and conditions of the Indenture, the Company shall become obligated to purchase, at the option of the Holder, the Securities held by such Holder on the following Purchase Dates and at the following Purchase Prices per $1,000 Principal Amount at Maturity, upon delivery of a Purchase Notice containing the information set forth in the Indenture, at any time from the opening of business on the date that is 20 Business Days prior to such Purchase Date until the close of business on such Purchase Date and upon delivery of the Securities to the Paying Agent by the Holder as set forth in the Indenture.

Purchase Date	Purchase Price
June 23, 2006	$543.41
June 23, 2010	$643.48
June 23, 2015	$799.84

The Purchase Price (equal to the Issue Price plus accrued Original Issue Discount and accrued and unpaid cash interest to the Purchase Date) may be paid, at the option of the Company, in cash or shares of Class B Common Stock or any combination thereof.

If prior to a Purchase Date this Security has been converted to a semiannual coupon debenture following the occurrence of a Tax Event, the Purchase Price will be equal to the Restated Principal Amount plus accrued and unpaid interest from the date of conversion to, but excluding, the Purchase Date.

At the option of the Holder and subject to the terms and conditions of the Indenture, the Company shall become obligated to purchase all or a portion of the Securities held by such Holder 35 Business Days after the occurrence of a Change in Control of the Company occurring on or prior to June 23, 2006 for a Change in Control Purchase Price equal to the Issue Price plus accrued Original Issue Discount and accrued and unpaid cash interest to the Change in Control Purchase Date, which Change in Control Purchase Price shall be paid in cash. If prior to a Change in Control Purchase Date this Security has been converted to a semiannual coupon debenture following the occurrence of a Tax Event, the Change in Control Purchase Price shall be equal to the Restated Principal Amount plus accrued and unpaid interest from the date of conversion to the Change in Control Purchase Date.

Holders have the right to withdraw any Purchase Notice or Change in Control Purchase Notice, as the case may be, by delivering to the Paying Agent a written notice of withdrawal in accordance with the provisions of the Indenture.

If cash (and/or securities if permitted under the Indenture) sufficient to pay the Purchase Price or Change in Control Purchase Price, as the case may be, of all Securities or portions thereof to be purchased as of the Purchase Date or the Change in Control Purchase Date, as the case may be, is deposited with the Paying Agent on the Business Day following the Purchase Date or the Change in Control Purchase Date, as the case may be, such Securities will cease to be outstanding and Original Issue Discount and cash interest shall cease to accrue on such Securities (or portions thereof) and will be deemed paid immediately after such Purchase Date or Change in Control Purchase Date, as the case may be, whether or not such Securities have been delivered to the Paying Agent, and the Holder thereof shall have no other rights as such (other than the right to receive the Purchase Price or Change in Control Purchase Price, as the case may be, upon surrender of such Security).

7. Notice of Redemption.

Notice of redemption will be mailed at least 30 days but not more than 60 days before the Redemption Date to each Holder of Securities to be redeemed at the Holder's registered address. If money sufficient to pay the Redemption Price of all Securities (or portions thereof) to be redeemed on the Redemption Date is deposited with the Paying Agent prior to or on the Redemption Date, immediately after such Redemption Date Original Issue Discount ceases to accrue on such Securities or portions thereof. Securities in denominations larger than $1,000 of Principal Amount at Maturity may be redeemed in part but only in integral multiples of $1,000 of Principal Amount at Maturity.

8. Conversion.

Subject to the next two succeeding sentences, a Holder of a Security may convert it into Class B Common Stock of the Company at any time before the close of business on June 23, 2020. If the Security is called for redemption, the Holder may convert it at any time before the close of business on the Redemption Date. A Security in respect of which a Holder has delivered a Purchase Notice or Change in Control Purchase Notice exercising the option of such Holder to require the Company to purchase such Security may be converted only if such notice of exercise is withdrawn in accordance with the terms of the Indenture.

The initial Conversion Rate is 5.6024 shares of Class B Common Stock per $1,000 Principal Amount at Maturity, subject to adjustment in certain events described in the Indenture. The Company will deliver cash or a check in lieu of any fractional share of Class B Common Stock.

In the event the Company exercises its option pursuant to Section 10.01 of the Indenture to have interest in lieu of Original Issue Discount accrue on the Security following a Tax Event, the Holder will be entitled on conversion to receive the same number of shares of Class B Common Stock such Holder would have received if the Company had not exercised such option. If the Company exercises such option, Securities surrendered for conversion during the period from the close of business on any Regular Record Date next preceding any Interest Payment Date to the opening of business of such Interest Payment Date (except Securities to be redeemed on a date within such period or on the next Interest Payment Date) must be accompanied by payment of an amount equal to the interest thereon that the registered Holder is to receive.

Except where Securities surrendered for conversion must be accompanied by payment as described above, no interest on converted Securities will be payable by the Company on any Interest Payment Date subsequent to the date of conversion.

To convert a Security, a Holder must (1) complete and manually sign the conversion notice below (or complete and manually sign a facsimile of such notice) and deliver such notice to the Conversion Agent, (2) surrender the Security to the Conversion Agent, (3) furnish appropriate endorsements and transfer documents if required by the Conversion Agent, the Company or the Trustee and (4) pay any transfer or similar tax, if required.

A Holder may convert a portion of a Security if the Principal Amount at Maturity of such portion is $1,000 or an integral multiple of $1,000. No payment or adjustment will be made for dividends on the Class B Common Stock except as provided in the Indenture. On conversion of a Security, that portion of accrued Original Issue Discount (or interest if the Company has exercised its option provided for in paragraph 10 hereof) and (except as provided below) accrued cash interest attributable to the period from the Issue Date (or, if the Company has exercised the option referred to in paragraph 10 hereof, the later of (x) the date of such exercise and (y) the date on which interest was last paid) or the date on which interest was last paid through the Conversion Date with respect to the converted Security shall not be cancelled, extinguished or forfeited, but rather shall be deemed to be paid in full to the Holder thereof through the delivery of the Class B Common Stock (together with the cash payment, if any, in lieu of fractional shares) in exchange for the Security being converted pursuant to the terms hereof; and the fair market value of such shares of Class B Common Stock (together with any such cash payment in lieu of fractional shares) shall be treated as issued, to the extent thereof, first in exchange for Original Issue Discount (or interest, if the Company has exercised its option provided for in paragraph 10 hereof) and cash interest accrued through the Conversion Date, and the balance, if any, of such fair market value of such Common Stock (and any such cash payment) shall be treated as issued in exchange for the Issue Price of the Security being converted pursuant to the provisions hereof. Notwithstanding the foregoing, accrued but unpaid interest will be payable upon conversion of Securities made concurrently with or after acceleration of Securities following an Event of Default.

The Conversion Rate will be adjusted for dividends or distributions on Class B Common Stock payable in Class B Common Stock or other Capital Stock; subdivisions, combinations or certain reclassifications of Class B Common Stock; distributions to all holders of Class B Common Stock of certain rights to purchase Class B Common Stock for a period expiring within 45 days at less than the Market Price at the Time of Determination; and distributions to such holders of assets or debt securities of the Company or certain rights to purchase securities of the Company (excluding certain cash dividends or distributions). However, no adjustment need be made if Securityholders may participate in the transaction or in certain other cases. The Company from time to time may voluntarily increase the Conversion Rate.

If the Company is a party to a consolidation, merger or binding share exchange or a transfer of all or substantially all of its assets, or upon certain distributions described in the Indenture, the right to convert a Security into Class B Common Stock may be changed into a right to convert it into securities, cash or other assets of the Company or another person.

9. Conversion Arrangement on Call for Redemption.

Any Securities called for redemption, unless surrendered for conversion before the close of business on the Redemption Date, may be deemed to be purchased from the Holders of such Securities at an amount not less than the Redemption Price, by one or more investment bankers or other purchasers who may agree with the Company to purchase such Securities from the Holders, to convert them into Class B Common Stock of the Company and to make payment for such Securities to the Trustee in trust for such Holders.

10. Tax Event

(a) From and after (i) the date (the "Tax Event Date") of the occurrence of a Tax Event and (ii) the date the Company exercises such option, whichever is later (the "Option Exercise Date"), at the option of the Company, interest in lieu of future Original Issue Discount and regular cash interest shall accrue at the rate of 5.00% per annum on a principal amount per Security (the "Restated Principal Amount") equal to the Issue Price plus Original Issue Discount accrued through the Option Exercise Date and shall be payable semiannually on June 23 and December 23 of each year (each an "Interest Payment Date") to Holders of record at the close of business on June 8 or December 8 (each a "Regular Record Date") immediately preceding such Interest Payment Date. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months and will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the Option Exercise Date.

(b) Cash interest on any Security that is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the person in whose name that Security is registered at the close of business on the Regular Record Date for such cash interest at the office or agency of the Company maintained for such purpose. Each installment of cash interest on any Security shall be paid in same-day funds by transfer to an account maintained by the payee located inside the United States.

(c) Except as otherwise specified with respect to the Securities, any Defaulted Interest on any Security shall forthwith cease to be payable to the registered Holder thereof on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company as provided for in Section 10.02(b) of the Indenture.

11. Denominations; Transfer; Exchange.

The Securities are in fully registered form, without coupons, in denominations of $1,000 of Principal Amount at Maturity and integral multiples of $1,000. A Holder may transfer or exchange Securities in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar need not transfer or exchange any Securities selected for redemption (except, in the case of a Security to be redeemed in part, the portion of the Security not to be redeemed) or any Securities in respect of which a Purchase Notice or Change in Control Purchase Notice has been given and not withdrawn (except, in the case of a Security to be purchased in part, the portion of the Security not to be

purchased) or any Securities for a period of 15 days before the mailing of a notice of redemption of Securities to be redeemed.

12. Persons Deemed Owners.

The registered Holder of this Security may be treated as the owner of this Security for all purposes.

13. Unclaimed Money or Securities.

The Trustee and the Paying Agent shall return to the Company upon written request any money or securities held by them for the payment of any amount with respect to the Securities that remains unclaimed for two years, subject to applicable unclaimed property law. After return to the Company, Holders entitled to the money or securities must look to the Company for payment as general creditors unless an applicable abandoned property law designates another person.

14. Amendment; Waiver.

Subject to certain exceptions set forth in the Indenture, (i) the Indenture or the Securities may be amended with the written consent of the Holders of at least a majority in aggregate Principal Amount at Maturity of the Securities at the time outstanding and (ii) certain Defaults may be waived with the written consent of the Holders of a majority in aggregate Principal Amount at Maturity of the Securities at the time outstanding. Subject to certain exceptions set forth in the Indenture, without the consent of any Securityholder, the Company and the Trustee may amend the Indenture or the Securities to cure any ambiguity, omission, defect or inconsistency, or to comply with Article 5 or Section 11.14 of the Indenture, to provide for uncertificated Securities in addition to or in place of certificated Securities or to make any change that does not adversely affect the rights of any Securityholder, or to comply with any requirement of the SEC in connection with the qualification of the Indenture under the TIA.

15. Defaults and Remedies.

Under the Indenture, Events of Default include (i) default in the payment of any cash interest upon any Security when such interest becomes due and payable, and such default in payment of interest shall continue for 30 days; (ii) default in the payment of the Principal Amount at Maturity (or, if the Securities have been converted to semiannual coupon debentures following a Tax Event pursuant to Article 10, the Restated Principal Amount), Issue Price plus accrued Original Issue Discount, Redemption Price, Purchase Price or Change in Control Purchase Price on any Security when the same becomes due and payable at its Stated Maturity, upon redemption, upon declaration, when due for purchase by the Company or otherwise; (iii) failure by the Company to deliver shares of Class B Common Stock (together with cash in lieu of fractional shares) when such Class B Common Stock (or cash in lieu of fractional shares) is required to be delivered upon conversion of a Security and such failure continues for 10 days; (iv) failure by the Company to comply with any of its agreements in the Securities or the Indenture (other than those referred to in clauses (i), (ii) and (iii) above) and such failure continues for 30 days after receipt by the Company of a Notice of Default; (v) there shall be (a) a default under any bond, debenture, note or other evidence of indebtedness for money borrowed

or under any mortgage, indenture or other instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness by the Company or any Significant Subsidiary or by any Subsidiaries of the Company which in the aggregate would constitute a Significant Subsidiary or under any guarantee of payment of Indebtedness by the Company or any Significant Subsidiary or by any Subsidiaries of the Company which in the aggregate would constitute a Significant Subsidiary, whether such Indebtedness or guarantee now exists or shall hereafter be created, and the effect of such default is to cause such Indebtedness (or Indebtedness so guaranteed) to become due prior to its stated maturity or (b) a failure to pay at the stated maturity of any such Indebtedness (or Indebtedness so guaranteed) any amounts then due and owing thereunder; provided, however, that no Default under this clause (v) shall exist if all such defaults and failures to pay relate to Indebtedness (including Indebtedness so guaranteed) with an aggregate principal amount of not more than $5,000,000 at the time outstanding; (vi) final judgments for the payment of money which in the aggregate exceed $5,000,000 at the time outstanding shall be rendered against the Company or any Significant Subsidiary or any Subsidiaries of the Company which in the aggregate would constitute a Significant Subsidiary by a court of competent jurisdiction and shall remain undischarged for a period (during which execution shall not be effectively stayed) of 60 days after such judgment becomes final and nonappealable; or (vii) certain events of bankruptcy, insolvency or reorganization with respect to the Company or any Significant Subsidiary or any Subsidiaries of the Company which in the aggregate would constitute a Significant Subsidiary. If an Event of Default occurs and is continuing, the Trustee, or the Holders of at least 25% in aggregate Principal Amount at Maturity of the Securities at the time outstanding, may declare all the Securities to be due and payable immediately. Certain events of bankruptcy or insolvency are Events of Default which will result in the Securities becoming due and payable immediately upon the occurrence of such Events of Default.

Securityholders may not enforce the Indenture or the Securities except as provided in the Indenture. The Trustee may refuse to enforce the Indenture or the Securities unless it receives reasonable indemnity or security. Subject to certain limitations, Holders of a majority in aggregate Principal Amount at Maturity of the Securities at the time outstanding may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Securityholders notice of any continuing Default (except a Default in payment of amounts specified in clause (i) or (ii) above) if it determines that withholding notice is in their interests.

16. Trustee Dealings with the Company.

Subject to certain limitations imposed by the TIA, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with and collect obligations owed to it by the Company or its Affiliates and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee.

17. No Recourse Against Others.

A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a

Security, each Securityholder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

18. Authentication.

This Security shall not be valid until an authorized signatory of the Trustee manually signs the Trustee's Certificate of Authentication on the other side of this Security.

19. Abbreviations.

Customary abbreviations may be used in the name of a Securityholder or an assignee, such as TEN COM (=tenants in common), TEN ENT (=tenants by the entireties), JT TEN (=joint tenants with right of survivorship and not as tenants in common), CUST (=custodian), and U/G/M/A (=Uniform Gift to Minors Act).

20. GOVERNING LAW.

THE INDENTURE AND THIS SECURITY WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

The Company will furnish to any Securityholder upon written request and without charge a copy of the Indenture which has in it the text of this Security in larger type. Requests may be made to:

Universal Health Services, Inc.
Universal Corporate Center
P.O. Box 61558
367 South Gulph Road
King of Prussia, Pennsylvania 19406-0958

ASSIGNMENT FORM

To assign this Security, fill in the form below:

I or we assign and transfer this Security to

_____

(Insert assignee's soc. sec. or tax ID no.)

_____

_____

_____

(Print or type assignee's name, address and zip code)

and irrevocably appoint _____ agent to transfer this Security on the books of the Company. The agent may substitute another to act for him.

CONVERSION NOTICE

To convert this Security into Class B Common Stock of the Company, check the box:

To convert only part of this Security, state the Principal Amount at Maturity to be converted (which must be $1,000 or an integral multiple of $1,000):

$_____

If you want the stock certificate made out in another person's name, fill in the form below:

_____

(Insert other person's soc. sec. or tax ID no.)

_____

_____

_____

_____

(Print or type other person's name, address and zip code)

_____

Date: _____ Your Signature:_____

_____

(Sign exactly as your name appears on the other side of this Security)

Transfer Certificate

In connection with any transfer of any of the Securities within the period prior to the expiration of the holding period applicable to the sales thereof under Rule 144(k) under the Securities Act of 1933, as amended (the "Securities Act") (or any successor provision), the undersigned registered owner of this Security hereby certifies with respect to $_____ Principal Amount at Maturity of the above-captioned securities presented or surrendered on the date hereof (the "Surrendered Securities") for registration of transfer, or for exchange or conversion where the securities issuable upon such exchange or conversion are to be registered in a name other than that of the undersigned registered owner (each such transaction being a "transfer"), that such transfer complies with the restrictive legend set forth on the face of the Surrendered Securities for the reason checked below:

[_] A transfer of the Surrendered Securities is made to the Company or any subsidiaries; or

[_] The transfer of the Surrendered Securities complies with Rule 144A under the U.S. Securities Act of 1933, as amended (the "Securities Act"); or

[_] The transfer of the Surrendered Securities is to an institutional accredited investor, as described in Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act; or

[_] The transfer of the Surrendered Securities is pursuant to an effective registration statement under the Securities Act, or

[_] The transfer of the Surrendered Securities is pursuant to an offshore transaction in accordance with Rule 904 of Regulation S under the Securities Act; or

[_] The transfer of the Surrendered Securities is pursuant to another available exemption from the registration requirement of the Securities Act .

and unless the box below is checked, the undersigned confirms that, to the undersigned's knowledge, such Securities are not being transferred to an "affiliate" of the Company as defined in Rule 144 under the Securities Act (an "Affiliate").

[_] The transferee is an Affiliate of the Company.

DATE:

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Signature(s)

(If the registered owner is a corporation, partnership or fiduciary, the title of the Person signing on behalf of such registered owner must be stated.)

Exhibit 4.5

RESOLUTIONS OF THE PRICING COMMITTEE OF

THE BOARD OF DIRECTORS OF

UNIVERSAL HEALTH SERVICES, INC.

* * * * *

WHEREAS, on April 21, 2001, the Board of Directors of Universal Health Services, Inc. (the "Company") authorized the Pricing Committee of the Board of Directors to exercise the full authority of the Board of Directors in connection with the issuance of Debt Securities by the Company under the Company's shelf registration statement on Form S-3, File No. 333-59916 (the "Registration Statement"), as amended and supplemented from time to time, and under the indenture, dated as of January 20, 2000 (the "Indenture"), between the Company and Bank One Trust Company, N.A., as trustee (the "Trustee"), the execution and delivery of which was authorized by the Board of Directors on May 19, 1999;

WHEREAS, it has been determined that there shall be issued at this time an aggregate of $200,000,000 of Debt Securities to be issued under the Indenture; and

WHEREAS, the Indenture provides that the terms of any series of Debt Securities may be established pursuant to an authorizing resolution of the Board of Directors or any duly authorized committee of the Board of Directors.

NOW, THEREFORE, BE IT

RESOLVED, that there is hereby approved and established a series of securities of the Company, whose terms shall be as follows, to be issued under the Indenture. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

1. The securities of such series shall be known and designated as the 6 3/4% Notes due 2011 ("Notes") of the Company.

2. The aggregate principal amount of Notes which may be authenticated and delivered under the Indenture is initially limited to $200,000,000, subject to increase in any reopening of the series as provided in Section 2.3 the Indenture.

3. The Notes will mature on November 15, 2011.

4. The Notes shall bear interest at the rate of 6 3/4% per annum, payable semiannually on May 15 and November 15 of each year (each, an "Interest Payment Date"), commencing May 15, 2002, from the most recent Interest Payment Date to which interest has been paid or, if no interest has been paid, from November 9, 2001, until payment of the principal sum has been made or duly provided for.

5. The principal of and on the Notes shall be payable in immediately available funds in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, at the office or agency of the Company maintained

for such purpose in the City of New York. Interest on the Notes shall be paid at such office or agency, in like coin or currency; provided, that payment of interest may be made at the option of the Company by check mailed to the address of the person entitled thereto as such address shall appear on the security register.

6. The amount of interest payable on any Interest Payment Date shall be computed on the basis of a 360-day year of twelve 30-day months. Each payment of interest in respect of an Interest Payment Date shall include interest accrued through the day prior to such Interest Payment Date. The interest so payable on any Interest Payment Date will, subject to the exceptions provided in the Indenture, be paid to the persons in whose names the Notes are registered at the close of business on the May 1 or November 1, as the case may be, which shall be a business day next preceding such Interest Payment Date.

7. The Company shall issue and sell the Notes to J.P. Morgan Securities Inc., Banc of America Securities LLC, Fleet Securities, Inc., First Union Securities, Inc. and ABN AMRO Incorporated (the "Underwriters"), the underwriters named in the Underwriting Agreement, dated November 6, 2001, by and between the Company and such Underwriters, at a purchase price of 99.268% thereof.

8. The Notes shall be issued as a Global Security in the form attached hereto as Exhibit A. The Depository Trust Company shall be the Depositary.
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9. The Notes may be redeemed, in whole at any time or in part from time to time, at the option of the Company, at a redemption price equal to accrued and unpaid interest on the principal amount being redeemed to the redemption date plus the greater of:

(a) 100% of the principal amount of the Notes to be redeemed; and

(b) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes to be redeemed (not including any portion of such payments of interest accrued to the date of redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate, plus 30 basis points.

"Adjusted Treasury Rate" means, with respect to any date of redemption, the rate per year equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that date of redemption.

"Comparable Treasury Issue" means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the Notes to be redeemed that would be used, at the time of selection and under customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes.

"Comparable Treasury Price" means, with respect to any date of redemption, the average of the Reference Treasury Dealer Quotations for the date of redemption,

after excluding the highest and lowest Reference Treasury Dealer Quotations, or if the Trustee obtains fewer than three Reference Treasury Dealer Quotations, the average of all Reference Treasury Dealer Quotations.

"Quotation Agent" means J.P. Morgan Securities Inc. or another Reference Treasury Dealer appointed by the Company.

"Reference Treasury Dealer" means each of J.P. Morgan Securities Inc. and Banc of America Securities LLC and their respective successors and any other primary treasury dealer selected by the Company. If any of the foregoing ceases to be a primary U.S. Government securities dealer in New York City, the Company must substitute another primary treasury dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any date of redemption, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by the Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day before the date of redemption.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the date of redemption to each holder of the Notes to be redeemed. Unless the Company defaults in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the Notes or portions of the Notes called for redemption; and further

RESOLVED, that the form, terms and provisions of the Underwriting Agreement presented to the Pricing Committee be, and thereby are, in all respects approved and adopted; and that any officer of the Company, and each of them to be, and they thereby are, authorized to execute and deliver, in the name and one behalf of the Company, such Underwriting Agreement in substantially such form and containing substantially the same provisions as presented to the Pricing Committee, with such changes therein and additions thereto as the officer executing the same may approve, the execution thereof by such officer to be conclusive evidence of such approval; and further

RESOLVED, that the Chairman of the Board, the President or any Vice President and the Treasurer or any Assistant Treasurer or Secretary or any Assistant Secretary of the Company be, and they hereby are, authorized to execute, manually or by facsimile signature (the use of which shall be deemed to constitute the approval and adoption thereof by the Company), in the name and on behalf of the Company and under its corporate seal (or a facsimile thereof, the use of which shall be deemed to constitute the approval and adoption thereof by the Company), Notes in denominations of $1,000 and any integral multiple thereof, in substantially the form attached hereto as Exhibit A, which form is
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hereby in all respects approved and adopted; and further

RESOLVED, that the form of the prospectus supplement dated November 6, 2001 relating to the issuance of the Notes presented to the Pricing Committee is in all respects approved and adopted, and that the proper officers of the Company be, and each of them hereby is, authorized to file such prospectus supplement (including the prospectus included in the

Registration Statement) (the "Prospectus"), in substantially such form as presented to the Pricing Committee (with such changes therein and additions thereto as such officer may approve, the delivery thereof by such officers to be conclusive evidence of such approval), together with such other information as such officers, with the advice of counsel, deem necessary or desirable, with the Securities and Exchange Commission pursuant to Rule 424(b) of the General Rules and Regulations promulgated under the Securities Act of 1933, as amended; and further

RESOLVED, that in addition to the specific authorization set forth in any of the foregoing resolutions regarding the proposed issue and sale of the Notes and related matters, the proper officers of the Company, and each of them be, and they hereby are, authorized to take from time to time any and all such action and to execute and deliver from time to time any and all such instruments, requests, receipts, notes, applications, reports, certificates and other documents as may be necessary or advisable in their opinion, with the advice of counsel, to effectuate, consummate, and comply with the purpose and intent of the foregoing resolutions or any of them and to perform the Company's obligations under the Underwriting Agreement, Indenture and Notes, the Registration Statement, Prospectus or amendment or supplement thereto or any agreements referred to herein.

Exhibit 10.3

[LETTERHEAD OF UNIVERSAL HEALTH]

December 31, 2001

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

Dear Alan:

The Board of Trustees of Universal Health Realty Income Trust at their December 3, 2001 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, 2002, upon the same terms and conditions. Please acknowledge UHS of Delaware's acceptance of this offer by signing in the space provided below and returning one copy of this letter to me.

Sincerely,

Kirk E. Gorman
President and Secretary

cc: Warren J. Nimetz, Esq.
Charles Boyle

Agreed to and Accepted:

UHS OF DELAWARE, INC.

By:

Alan B. Miller, President

CONFORMED COPY

$400,000,000

CREDIT AGREEMENT

dated as of

December 13, 2001

among

UNIVERSAL HEALTH SERVICES, INC.

THE ELIGIBLE SUBSIDIARIES REFERRED TO HEREIN

THE BANKS LISTED HEREIN

JPMORGAN CHASE BANK,
as Administrative Agent

BANK OF AMERICA, N.A.,
as Syndication Agent

and

FIRST UNION NATIONAL BANK
and
FLEET NATIONAL BANK,
as Co-Documentation Agents

J.P. Morgan Securities Inc.,
Lead Arranger and Sole Bookrunner

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CREDIT AGREEMENT

AGREEMENT dated as of December 13, 2001 among UNIVERSAL HEALTH SERVICES, INC., the ELIGIBLE SUBSIDIARIES referred to herein, the BANKS listed on the signature pages hereof, JPMORGAN CHASE BANK, as Administrative Agent, BANK OF AMERICA, N.A., as Syndication Agent and FIRST UNION NATIONAL BANK and FLEET NATIONAL BANK, as Co-Documentation Agents.

The parties hereto agree as follows:

ARTICLE 1
DEFINITIONS

SECTION 1.01. Definitions. The following terms, as used herein, have the following meanings:

"Absolute Rate Auction" means a solicitation of Competitive Bid Quotes setting forth Competitive Bid Absolute Rates pursuant to Section 2.03.

"Acceptable Insurer" means an insurance company (i) having an A.M. Best rating of "A" or better and being in a financial size category of "X" or larger (as such category is defined as of the date hereof) or (ii) otherwise reasonably acceptable to the Required Banks.

"Additional Bank" has the meaning set forth in Section 2.19. "Adjusted CD Rate" has the meaning set forth in Section 2.07(b).

"Administrative Agent" means JPMorgan Chase Bank in its capacity as administrative agent for the Banks under the Loan Documents, and its successors in such capacity.

"Administrative Questionnaire" means, with respect to each Bank, an administrative questionnaire in the form prepared by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Company) duly completed by such Bank.

"Agents" means the Administrative Agent, the Syndication Agent and the Co-Documentation Agents.

"Alternative Currency" means Euro, British Sterling and Swedish Kronor; provided that any other currency (except Dollars) may also be an Alternative Currency if (i) the Company requests, by notice to the Administrative Agent, that such currency be included as an additional Alternative Currency for purposes of this Agreement, (ii) such currency is freely transferable and is freely convertible into Dollars in the London foreign exchange market, (iii) deposits in such currency are customarily offered to banks in the London interbank market and (iv) each Bank, by notice to the Administrative Agent, approves the inclusion of such currency as an additional Alternative Currency for purposes hereof. The Banks' approval of any such additional Alternative Currency may be limited to a specified maximum Dollar Amount or a specified period of time or both.

"Alternative Currency Loan" means a Syndicated Loan that is made in an Alternative Currency pursuant to the applicable Notice of Committed Borrowing. Any Loan in the currency of a Participating Member State shall be denominated in Euro Units. Any Loan made in the currency of a Participating Member State before the date on which such Participating Member State adopts the Euro as its currency (the "Entry Date") and still outstanding on the Entry Date shall be prepaid on the last day of the Interest Period applicable thereto on the Entry Date.

"Alternative Currency Sublimit" means a Dollar Amount equal to $75,000,000.

"Applicable Lending Office" means, with respect to any Bank, (i) in the case of its Domestic Loans, its Domestic Lending Office, (ii) in the case of its Euro-Currency Loans, its Euro-Currency Lending Office, (iii) in the case of its Competitive Bid Loans, its Competitive Bid Lending Office and (iv) in the case of its Swingline Loans, its Swingline Lending Office.

"Approved Fund" means any Fund that is administered or managed by (i) a Bank, (ii) an affiliate of a Bank or (iii) an entity or an affiliate of an entity that administers or manages a Bank.

"Assessment Rate" has the meaning set forth in Section 2.07(b).

"Bank" means each bank listed on the signature pages hereof, each Additional Bank or Eligible Assignee which becomes a Bank pursuant to Section 2.19 or 11.06(c), and their respective successors.

"Base Rate" means, for any day, a rate per annum equal to the higher of (i) the Prime Rate for such day and (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day.

"Base Rate Loan" means (i) a Syndicated Loan which bears interest at the Base Rate pursuant to the applicable Notice of Committed Borrowing or Notice of Interest Rate Election or the provisions of Article 8 or (ii) an overdue amount which was a Base Rate Loan immediately before it became overdue.

"Benefit Arrangement" means at any time an employee benefit plan within the meaning of Section 3(3) of ERISA which is not a Plan or a Multiemployer Plan and which is maintained or otherwise contributed to by any member of the ERISA Group.

"Borrower" means the Company or any Eligible Subsidiary, as the context may require, and their respective successors, and "Borrowers" means all of the foregoing. When used in relation to any Loan or Letter of Credit, references to "the Borrower" are to the particular Borrower to which such Loan is or is to be made or at whose request such Letter of Credit is or is to be issued.

"Borrowing" has the meaning set forth in Section 1.03.

"British Sterling" means the lawful currency of the United Kingdom.

"CD Base Rate" has the meaning set forth in Section 2.07(b).

"CD Loan" means (i) a Syndicated Loan which bears interest at a CD Rate pursuant to the applicable Notice of Committed Borrowing or Notice of Interest Rate election or (ii) an overdue amount which was a CD Loan immediately before it became overdue.

"CD Margin" means a rate per annum determined in accordance with the Pricing Schedule.

"CD Rate" means a rate of interest determined pursuant to Section 2.07(b) on the basis of an Adjusted CD Rate.

"CD Reference Banks" means JPMorgan Chase Bank, Bank of America, N.A., First Union National Bank and Fleet National Bank.

"Co-Documentation Agents" means First Union National Bank and Fleet National Bank in their capacity as co-documentation agents in respect of this Agreement.

"Commitment" means (i) with respect to each Bank, the amount of such Bank's Commitment, as such amount is set forth opposite the name of such Bank on the Commitment Schedule, (ii) with respect to any Additional Bank, the amount of the Commitment assumed by it pursuant to Section 2.19 and (iii) with respect to any Eligible Assignee, the amount of the transferor Bank's Commitment assigned to it pursuant to Section 11.06(c), in each case as such amount may be changed from time to time pursuant to Section 2.09, 2.19 or 11.06(c); provided that, if the context so requires, the term "Commitment" means the obligation of a Bank to extend credit up to such amount to the Borrowers hereunder.

"Commitment Schedule" means the Commitment Schedule attached hereto.

"Committed Loan" means a Syndicated Loan or a Swingline Loan.

"Company" means Universal Health Services, Inc., a Delaware corporation, and its successors.

"Company's 2000 Form 10-K" means the Company's annual report on Form 10-K for 2000, as filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934.

"Company's Latest Form 10-Q" means the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2001, as filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934.

"Competitive Bid Absolute Rate" has the meaning set forth in Section 2.03(d).

"Competitive Bid Absolute Rate Loan" means a loan to be made by a Bank pursuant to an Absolute Rate Auction.

"Competitive Bid Lending Office" means, as to each Bank, its Domestic Lending Office or such other office, branch or affiliate of such Bank as it may hereafter designate as its Competitive Bid Lending Office by notice to the Borrower and the Administrative Agent; provided that any Bank may from time to time by notice to the Company and the Administrative Agent designate separate

Competitive Bid Lending Offices for its Competitive Bid LIBOR Loans, on the one hand, and its Competitive Bid Absolute Rate Loans, on the other hand, in which case all references herein to the Competitive Bid Lending Office of such Bank will be deemed to refer to either or both of such offices, as the context may require.

"Competitive Bid LIBOR Loan" means a loan to be made by a Bank pursuant to a LIBOR Auction (including such a loan bearing interest at the Base Rate pursuant to Section 8.01).

"Competitive Bid Loan" means a Competitive Bid LIBOR Loan or a Competitive Bid Absolute Rate Loan.

"Competitive Bid Margin" has the meaning set forth in Section 2.03(d)(ii)(C).

"Consolidated Debt" means at any date the Debt of the Company and its Consolidated Subsidiaries (exclusive of the French Subsidiary Debt), determined on a consolidated basis as of such date; provided that from December 1 of any year to but not including June 30 of the following year Consolidated Debt shall not include amounts borrowed to fund the Voluntary Employment Benefit Association not exceeding the aggregate amount of employee benefits prepaid by the Company and its Consolidated Subsidiaries through payments to the Voluntary Employment Benefit Association during such period.

"Consolidated EBITDA" means, for any period, the sum of (i) Consolidated Net Income for such period plus (ii) to the extent deducted in the determination thereof, Consolidated Interest Expense, depreciation and amortization expense and provision for income taxes plus (or minus) (iii) the amount of any material nonrecurring items of loss (or gain), adjusted to eliminate the effect of any such item on the provision for income taxes for such period minus (iv) the amount of debt service (i.e., interest, fees and any net reduction in outstanding principal balance) on the French Subsidiary Debt for such period.

"Consolidated EBITDAR" means, for any period, Consolidated EBITDA for such period plus, to the extent deducted in determining Consolidated EBITDA for such period, Consolidated Rental Expense for such period.

"Consolidated Finance Liabilities" means, at any date, the sum of (i) Consolidated Debt at such date plus (ii) eight times Consolidated Rental Expense for the period of four consecutive fiscal quarters most recently ended on or prior to such date.

"Consolidated Interest Expense" means, for any period, the interest expense (net of interest income and exclusive of interest on the French Subsidiary Debt) of the Company and its Consolidated Subsidiaries determined on a consolidated basis for such period.

"Consolidated Net Income" for any period means the consolidated net income of the Company and its Consolidated Subsidiaries determined on a consolidated basis for such period.

"Consolidated Net Worth" means at any date the consolidated stockholders' equity of the Company and its Consolidated Subsidiaries, determined as of such date.

"Consolidated Net Tangible Assets" means, at any date, the Net Tangible Assets of the Company and its Consolidated Subsidiaries determined on a consolidated basis as of such date.

"Consolidated Rental Expense" means, for any period, the lease and rental expense of the Company and its Consolidated Subsidiaries under all leases (other than capital leases), determined on a consolidated basis for such period.

"Consolidated Subsidiary" means at any date any Subsidiary or other entity the accounts of which would be consolidated with those of the Company in its consolidated financial statements if such statements were prepared as of such date.

"Credit Exposure" means, with respect to any Bank at any time, (i) the amount of its Commitment (whether used or unused) at such time or (ii) if the Commitments have terminated in their entirety, the sum of the aggregate Dollar Amount of its Loans at such time (including any participations in Swingline Loans purchased by it and excluding any participations in Swingline Loans sold by it) plus its Letter of Credit Liabilities at such time.

"Debt" of any Person means at any date, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (iv) all obligations of such Person as lessee which are capitalized in accordance with generally accepted accounting principles, (v) all non-contingent obligations (and, for purposes of Section 5.14 and the definitions of Material Debt and Material Financial Obligations, all contingent obligations) of such Person to reimburse any bank or other Person in respect of amounts paid under a letter of

credit or similar instrument, (vi) all Debt secured by a Lien on any asset of such Person, whether or not such Debt is otherwise an obligation of such Person, and (vii) all Debt of others Guaranteed by such Person.

"Default" means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

"Derivatives Obligations" of any Person means all obligations of such Person in respect of any rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of the foregoing transactions) or any combination of the foregoing transactions.

"Designated Lender" means, with respect to any Designating Bank, an Approved Fund designated by it pursuant to Section 11.07(a) as a Designated Lender for purposes of this Agreement.

"Designating Bank" means, with respect to each Designated Lender, the Bank that designated such Designated Lender pursuant to Section 11.07(a).

"Dollar Amount" means, at any time:

(i) with respect to any Dollar-Denominated Loan, the principal amount thereof then outstanding;

(ii) with respect to any Alternative Currency Loan, the principal amount thereof then outstanding in the relevant Alternative Currency, converted to Dollars in accordance with Section 2.20(a); and

(iii) with respect to any Letter of Credit Liabilities, (A) if denominated in Dollars, the amount thereof and (B) if denominated in an Alternative Currency, the amount thereof converted to Dollars in accordance with Section 2.20(b).

"Dollar-Denominated Loan" means a Loan that is made in Dollars pursuant to the applicable Notice of Borrowing.

"Dollars" and the sign "$" mean lawful currency of the United States.

"Domestic Business Day" means any day except a Saturday, Sunday or other day on which commercial banks in New York City are authorized by law to close.

"Domestic Lending Office" means, as to each Bank, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Domestic Lending Office) or such other office as such Bank may hereafter designate as its Domestic Lending Office by notice to the Company and the Administrative Agent; provided that any Bank may so designate separate Domestic Lending Offices for its Base Rate Loans, on the one hand, and its CD Loans, on the other hand, in which case all references herein to the Domestic Lending Office of such Bank shall be deemed to refer to either or both of such offices, as the context may require.

"Domestic Loans" means CD Loans or Base Rate Loans or both.

"Domestic Reserve Percentage" has the meaning set forth in Section 2.07(b).

"Effective Date" means the date this Agreement becomes effective in accordance with Section 3.01.

"Election to Participate" means an Election to Participate substantially in the form of Exhibit G hereto.

"Election to Terminate" means an Election to Terminate substantially in the form of Exhibit H hereto.

"Eligible Assignee" means (i) a Bank; (ii) an affiliate of a Bank; (iii) an Approved Fund; and (iv) any other Person (other than a natural Person) approved by the Administrative Agent, the Issuing Banks and, so long as no Event of Default shall have occurred and be continuing, the Company (each such approval not to be unreasonably withheld or delayed).

"Eligible Subsidiary" means any Majority-Owned Consolidated Subsidiary as to which an Election to Participate shall have been delivered to the Administrative Agent and as to which an Election to Terminate with respect to such Election to Participate shall not have been delivered to the Administrative Agent. Each such Election to Participate and Election to Terminate shall be duly executed on behalf of such Majority-Owned Consolidated Subsidiary and the Company in such number of copies as the Administrative Agent may request. If at any time a Subsidiary theretofore designated as an Eligible Subsidiary no longer qualifies as a Majority-Owned Consolidated Subsidiary, the Company shall cause

to be delivered to the Administrative Agent an Election to Terminate terminating the status of such Subsidiary as an Eligible Subsidiary. The delivery of an Election to Terminate shall not affect any obligation of an Eligible Subsidiary theretofore incurred or the Company's guaranty thereof. The Administrative Agent shall promptly give notice to the Banks of the receipt of any Election to Participate or Election to Terminate.

"EMU Legislation" means legislative measures of the Council of the European Union for the introduction of, changeover to or operation of the Euro.

"Environmental Laws" means any and all federal, state, local and foreign statutes, laws, judicial decisions, regulations, ordinances, rules, judgments, orders, decrees, plans, injunctions, permits, concessions, grants, franchises, licenses, agreements and other governmental restrictions relating to the environment, the effect of the environment on human health or to emissions, discharges or releases of pollutants, contaminants, Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, Hazardous Substances or wastes or the clean-up or other remediation thereof.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

"ERISA Group" means the Company, any Subsidiary and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Company or any Subsidiary, are treated as a single employer under Section 414 of the Internal Revenue Code.

"Euro" means the single currency of the Participating Member States in the Third Stage.

"Euro-Currency Business Day" means a Euro-Dollar Business Day, unless such term is used in connection with an Alternative Currency Loan, in which case such day shall only be a Euro-Currency Business Day if commercial banks are open for international business (including dealings in deposits in such Alternative Currency) in both London and the place designated by the Administrative Agent for funds to be paid or made available in such Alternative Currency.

"Euro-Currency Lending Office" means, as to each Bank, its office, branch or affiliate located at its address set forth in its Administrative

Questionnaire (or identified in its Administrative Questionnaire as its Euro-Currency Lending Office) or such other office, branch or affiliate of such Bank as it may hereafter designate as its Euro-Currency Lending Office by notice to the Company and the Administrative Agent; provided that any Bank may from time to time by notice to the Borrower and the Administrative Agent designate separate Euro-Currency Lending Offices for its Loans in different currencies, in which case all references herein to the Euro-Currency Lending Office of such Bank shall be deemed to refer to any or all of such offices, as the context may require.

"Euro-Currency Loan" means either a Euro-Dollar Loan or an Alternative Currency Loan.

"Euro-Currency Margin" means a rate per annum determined in accordance with the Pricing Schedule.

"Euro-Currency Reference Banks" means the principal London offices of JPMorgan Chase Bank, Bank of America, N.A., First Union National Bank and Fleet National Bank.

"Euro-Currency Rate" means a rate of interest determined pursuant to Section 2.07(c) on the basis of a London Interbank Offered Rate.

"Euro-Currency Reserve Percentage" means for any day that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement for a member bank of the Federal Reserve System in New York City with deposits exceeding five billion dollars in respect of "Eurocurrency liabilities" (or in respect of any other category of liabilities which includes deposits by reference to which the interest rate on Euro-Dollar Loans is determined or any category of extensions of credit or other assets which includes loans by a non-United States office of any Bank to the United States residents).

"Euro-Dollar Business Day" means any Domestic Business Day on which commercial banks are open for international business (including dealings in dollar deposits) in London.

"Euro-Dollar Loan" means (i) a Syndicated Loan denominated in Dollars which bears interest at a Euro-Currency Rate pursuant to the applicable Notice of Committed Borrowing or Notice of Interest Rate Election or (ii) an overdue amount which was a Euro-Dollar Loan immediately before it became overdue.

"Euro Unit" means the currency unit of the Euro.

"Event of Default" has the meaning set forth in Section 6.01.

"Evergreen Letter of Credit" means a Letter of Credit that is automatically extended unless the Issuing Bank gives notice to the beneficiary thereof stating that such Letter of Credit will not be extended.

"Existing Credit Agreement" means the Credit Agreement dated as of July 8, 1997 among the Company, the banks parties thereto and Morgan Guaranty Trust Company of New York, as agent, as amended to the Effective Date.

"Federal Funds Rate" means, for any day, the rate per annum (rounded upward, if necessary, to the nearest 1/100(th) of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Domestic Business Day next succeeding such day, provided that (i) if such day is not a Domestic Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Domestic Business Day as so published on the next succeeding Domestic Business Day, and (ii) if no such rate is so published on such next succeeding Domestic Business Day, the Federal Funds Rate for such day shall be the average rate quoted to JPMorgan Chase Bank on such day on such transactions as determined by the Administrative Agent.

"Fixed Charge Coverage Ratio" means, at any date, the ratio of Consolidated EBITDAR to Fixed Charges for the period of four consecutive fiscal quarters most recently ended on or prior to such date.

"Fixed Charges" means, for any period, the sum of Consolidated Interest Expense and Consolidated Rental Expense for such period.

"Fixed Rate Loans" means CD Loans, Euro-Currency Loans, Swingline Loans or Competitive Bid Loans (excluding Swingline Loans or Competitive Bid LIBOR Loans bearing interest at the Base Rate) or any combination of the foregoing.

"French Subsidiary" means, at any time, Health Partners Sarl and any direct or indirect Subsidiary thereof.

"French Subsidiary Debt" means Debt of any French Subsidiary which is not recourse to, Guaranteed by or otherwise Debt of the Company or any Subsidiary other than a French Subsidiary, to the extent the outstanding principal amount thereof does not exceed $50,000,000 (or the equivalent in other currencies).

"Fund" means any Person (other than a natural Person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

"Group" means at any time a group of Loans consisting of (i) all Loans which are Base Rate Loans at such time, (ii) all Euro-Currency Loans denominated in the same currency and having the same Interest Period at such time or (iii) all CD Loans having the same Interest Period at such time, provided that, if a Committed Loan of any particular Bank is converted to or made as a Base Rate Loan pursuant to Article 8, such Loan shall be included in the same Group or Groups of Loans from time to time as it would have been if it had not been so converted or made.

"Guarantee" by any Person means any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation (whether arising by virtue of partnership arrangements, by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for the purpose of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part), provided that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"Hazardous Substances" means any toxic, radioactive, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

"Indemnitee" has the meaning set forth in Section 9.03(b).

"Interest Period" means: (1) with respect to each Euro-Currency Loan, the period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in the applicable Notice of Interest Rate Election and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable notice, provided that:

(a) any Interest Period which would otherwise end on a day which is not a Euro-Currency Business Day shall be extended to the next

succeeding Euro-Currency Business Day unless such Euro-Currency Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Euro-Currency Business Day;

(b) any Interest Period which begins on the last Euro-Currency Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (c) below, end on the last Euro-Currency Business Day of a calendar month; and

(c) any Interest Period which would otherwise end after the Termination Date shall end on the Termination Date;

(2) with respect to each CD Loan, the period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in the applicable Notice of Interest Rate election and ending 30, 60, 90 or 180 days thereafter, as the Borrower may elect in the applicable Notice of Borrowing; provided that:

(a) any Interest Period (other than an Interest Period determined pursuant to clause (b) below) which would otherwise end on a day which is not a Euro-Dollar Business Day shall be extended to the next succeeding Euro-Dollar Business Day; and

(b) any Interest Period which would otherwise end after the Termination Date shall end on the Termination Date;

(3) with respect to each Swingline Loan, the period commencing on the date of borrowing specified in the applicable Notice of Borrowing and ending such number of days thereafter (but not more than 14 days) as the Borrower may elect in such notice; provided that:

(a) any Interest Period (other than an Interest Period determined pursuant to clause (b) below) which would otherwise end on a day which is not a Euro-Dollar Business Day shall be extended to the next succeeding Euro-Dollar Business Day; and

(b) any Interest Period which would otherwise end after the Termination Date shall end on the Termination Date;

(4) with respect to each Competitive Bid LIBOR Loan, the period commencing on the date of borrowing specified in the applicable Notice of

Borrowing and ending such whole number of months thereafter as the Borrower may elect in accordance with Section 2.03; provided that:

(a) any Interest Period which would otherwise end on a day which is not a Euro-Dollar Business Day shall, subject to clause (c) below, be extended to the next succeeding Euro-Dollar Business Day unless such Euro-Dollar Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Euro-Dollar Business Day;

(b) any Interest Period which begins on the last Euro-Dollar Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (c) below, end on the last Euro-Dollar Business Day of a calendar month; and

(c) any Interest Period which would otherwise end after the Termination Date shall end on the Termination Date; and

(5) with respect to each Competitive Bid Absolute Rate Loan, the period commencing on the date of borrowing specified in the applicable Notice of Borrowing and ending such number of days thereafter (but not less than 7 days) as the Borrower may elect in accordance with Section 2.03; provided that:

(a) any Interest Period (other than an Interest Period determined pursuant to clause (b) below) which would otherwise end on a day which is not a Euro-Dollar Business Day shall be extended to the next succeeding Euro-Dollar Business Day; and

(b) any Interest Period which would otherwise end after the Termination Date shall end on the Termination Date;

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended, or any successor statute.

"Issuing Bank" means any Bank that may agree to issue letters of credit hereunder pursuant to an instrument in form satisfactory to the Company, such Bank and the Administrative Agent, in its capacity as issuer of a Letter of Credit hereunder.

"Letter of Credit" means a letter of credit to be issued hereunder by the Issuing Bank in accordance with Section 2.16.

"Letter of Credit Liabilities" means, for any Bank and at any time, such Bank's ratable participation in the sum of (x) the amounts then owing by the Borrower in respect of amounts drawn under Letters of Credit and (y) the aggregate amount then available for drawing under all Letters of Credit.

"Leverage Ratio" means, at any date, the ratio of (i) Consolidated Finance Liabilities at such date to (ii) the sum of such Consolidated Finance Liabilities plus Consolidated Net Worth at such date.

"LIBOR Auction" means a solicitation of Competitive Bid Quotes setting forth Competitive Bid Margins based on the London Interbank Offered Rate pursuant to Section 2.03.

"Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind, or any other type of preferential arrangement that has the practical effect of creating a security interest, in respect of such asset. For the purposes of this Agreement, the Company or any Subsidiary shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such asset.

"Loan" means a Committed Loan or a Competitive Bid Loan and "Loans" means Committed Loans or Competitive Bid Loans or both.

"Loan Documents" means this Agreement and the Notes.

"London Interbank Offered Rate" has the meaning set forth in Section 2.07(c).

"Majority-Owned Consolidated Subsidiary" means any Consolidated Subsidiary the majority of the shares of capital stock or other ownership interests of which (except directors' qualifying shares) are at the time directly or indirectly owned by the Borrower.

"Material Adverse Effect" means a material adverse effect on the business, condition (financial or otherwise), properties, results of operations or prospects of the Company and its Consolidated Subsidiaries, considered as a whole.

"Material Debt" means Debt (other than the Loans and the French Subsidiary Debt) of the Company and/or one or more of its Subsidiaries, arising in

one or more related or unrelated transactions, in an aggregate principal amount exceeding $5,000,000.

"Material Financial Obligation" means a principal or face amount of Debt (other than the French Subsidiary Debt) and/or payment or collateralization obligations in respect of Derivatives Obligations and/or Synthetic Leases of the Company and/or one or more of its Subsidiaries, arising in one or more related or unrelated transactions, exceeding in the aggregate $5,000,000.

"Material Plan" means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of $5,000,000.

"Multiemployer Plan" means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions, including for these purposes any Person which ceased to be a member of the ERISA Group during such five-year period.

"National Currency Unit" or "NCU" means the unit of currency (other than a Euro Unit) of a Participating Member State.

"Net Tangible Assets" means, as to any Person or other business unit, its gross assets, net of depreciation and other proper reserves, less its goodwill and other intangible assets.

"Notes" means promissory notes of a Borrower, substantially in the form of Exhibit A hereto, evidencing the obligation of such Borrower to repay the Loans made to it, and "Note" means any one of such promissory notes issued hereunder.

"Notice of Borrowing" means a Notice of Committed Borrowing (as defined in Section 2.03) or a Notice of Competitive Bid Borrowing (as defined in Section 2.03(f)).

"Notice of Interest Rate Election" has the meaning set forth in Section 2.10(b).

"Notice of Issuance" has the meaning set forth in Section 2.16(b).

"Outstanding Committed Amount" means, as to any Bank at any time, the sum of (i) the aggregate Dollar Amount of Committed Loans made by it outstanding at such time, plus (ii) the aggregate Dollar Amount of its Letter of

Credit Liabilities at such time, plus (iii) in the case of any Bank other than the Swingline Bank, the aggregate amount of its participating interests in any Unrefunded Swingline Loans.

"Parent" means, with respect to any Bank, any Person controlling such Bank.

"Participant" has the meaning set forth in Section 11.06(b).

"Participating Member States" means those members of the European Union from time to time which adopt a single, shared currency in the Third Stage.

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"Person" means an individual, a corporation, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"Plan" means at any time an employee pension benefit plan (other than a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

"Pricing Schedule" means the Pricing Schedule attached hereto.

"Prime Rate" means the rate of interest publicly announced by JPMorgan Chase Bank in New York City from time to time as its Prime Rate.

"Quarterly Date" means each March 31, June 30, September 30 and December 31.

"Receivables Financing" means a financing arrangement among the Company, certain Subsidiaries of the Company, including a wholly-owned special purpose Subsidiary of the Company and certain other parties pursuant to which Subsidiaries of the Company will sell substantially all of their accounts receivable from time to time to the special purpose Subsidiary of the Company which will, in turn, sell or pledge such receivables to certain investors for an aggregate purchase price outstanding not at any time in excess of $150,000,000.

"Reference Banks" means the CD Reference Banks or the Euro-Dollar Reference Banks, as the context may require, and "Reference Bank" means any one of such Reference Banks.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Reimbursement Obligation" has the meaning set forth in Section 2.16(d).

"Required Banks" means at any time Banks more than 50% of the aggregate amount of the Credit Exposures at such time.

"Restricted Payment" means (i) any dividend or other distribution on any shares of the Company's capital stock (except dividends payable solely in shares of its common stock) or (ii) any payment on account of the purchase, redemption, retirement or acquisition of (a) any shares of the Company's capital stock (except shares acquired upon the conversion thereof into shares of its common stock) or (b) any option, warrant or other right to acquire shares of the Company's capital stock.

"Revolving Credit Period" means the period from and including the Effective Date to but excluding the Termination Date.

"Spot Rate" means, for any Alternative Currency on any day, the average of the Administrative Agent's spot buying and selling rates for the exchange of such Alternative Currency and Dollars as of approximately 11:00 A.M. (London time) on such day.

"Subordinated Debt" of any Person means all Debt which (i) by its terms is not required to be repaid, in whole or in part, before the Termination Date, (ii) bears interest at rates not greater than such Person shall reasonably determine to be the prevailing market rate, at the time such Subordinated Debt is issued, for interest on comparable subordinated debt issued by comparable issuers, (iii) is subordinated in right of payment to such Person's indebtedness, obligations and liabilities to the Banks under the Loan Documents pursuant to payment and subordination provisions satisfactory in form and substance to the Required Banks and (iv) is issued pursuant to loan documents having covenants and events of default that are satisfactory in form and substance to the Required Banks but that in no event are less favorable, including with respect to rights of acceleration, to the Borrower than the terms hereof.

"Subsidiary" means, as to any Person, any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by such Person; unless otherwise specified, "Subsidiary" means a Subsidiary of the Company. The term "Subsidiary" shall include, without limitation, each partnership or limited liability company in which the Company or one of its Subsidiaries is a partner or member, as the case may be, which operates surgical care centers or other health care facilities.

"Swedish Kronor" means the lawful currency of the Kingdom of Sweden.

"Swingline Bank" means JPMorgan Chase Bank, and its successors.

"Swingline Lending Office" means, as to the Swingline Bank, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Swingline Lending Office) or such other office as such Bank may hereafter designate as its Swingline Lending Office by notice to the Company and the Administrative Agent.

"Swingline Loan" means a loan made by the Swingline Bank pursuant to Section 2.01(b).

"Swingline Takeout Loan" means a Base Rate Loan made pursuant to Section 2.18.

"Syndicated Loan" means a Loan made by a Bank pursuant to Section 2.01(a); provided that, if any such loan or loans (or portions thereof) are combined or subdivided pursuant to a Notice of Interest Rate Election, the term "Syndicated Loan" shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

"Syndication Agent" means Bank of America, N.A., in its capacity as syndication agent in respect of this Agreement.

"Synthetic Lease" means a lease as to which (i) the obligations of the lessee are not capitalized in accordance with generally accepted accounting principles but (ii) the lessee is treated as owner of the leased property for purposes of the Internal Revenue Code.

"Termination Date" means December 13, 2006, or, if such day is not a Euro-Dollar Business Day, the next succeeding Euro-Dollar Business Day unless

such Euro-Dollar Business Day falls in another calendar month, in which case the Termination Date shall be the next preceding Euro-Dollar Business Day.

"Third Stage" means the third stage of European economic and monetary union pursuant to the Treaty on European Union.

"Total Outstanding Amount" means, at any time, the aggregate Dollar Amount of all Loans outstanding at such time plus the aggregate Dollar Amount of the Letter of Credit Liabilities of all Banks at such time.

"Treaty on European Union" means the Treaty of Rome of March 25, 1957, as amended by the Single European Act 1986 and the Maastricht Treaty (which was signed at Maastricht on February 7, 1992, and came into force on November 1, 1993), as amended from time to time.

"Unfunded Liabilities" means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

"United States" means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

"Unrefunded Swingline Loans" has the meaning set forth in Section 2.18(b).

"Wholly-Owned Consolidated Subsidiary" means any Consolidated Subsidiary all of the shares of capital stock or other ownership interests of which (except directors' qualifying shares) are at the time directly or indirectly owned by the Borrower.

SECTION 1.02. Accounting Terms and Determinations. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with generally accepted accounting principles as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Company's independent public accountants) with the most recent audited consolidated financial statements of the

Company and its Consolidated Subsidiaries delivered to the Banks; provided that, if the Company notifies the Administrative Agent that the Company wishes to amend any covenant in Article V to eliminate the effect of any change in generally accepted accounting principles on the operation of such covenant (or if the Administrative Agent notifies the Company that the Required Banks wish to amend Article V for such purpose), then the Company's compliance with such covenant shall be determined on the basis of generally accepted accounting principles in effect immediately before the relevant change in generally accepted accounting principles became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Company and the Required Banks.

SECTION 1.03. Types of Borrowings. The term "Borrowing" denotes the aggregation of Loans of one or more Banks to be made to a single Borrower pursuant to Article 2 in the same currency on the same date, all of which Loans are of the same type (subject to Article 8) and, except in the case of Base Rate Loans, have the same initial Interest Period. Borrowings are classified for purposes of this Agreement either by reference to the pricing of Loans comprising such Borrowing (e.g., a "Fixed Rate Borrowing" is a Euro-Currency Borrowing, a CD Borrowing, a Swingline Borrowing or a Competitive Bid Borrowing (excluding any such Borrowing consisting of Swingline Loans or Competitive Bid LIBOR Loans bearing interest at the Base Rate), and a "Euro-Currency Borrowing" is a Borrowing comprised of Euro-Dollar Loans) or by reference to the provisions of Article 2 under which participation therein is determined (i.e., a "Syndicated Borrowing" is a Borrowing under Section 2.01(a) in which all Banks participate in proportion to their Commitments, while a "Competitive Bid Borrowing" is a Borrowing under Section 2.03 in which the Bank participants are determined on the basis of their bids in accordance therewith).

ARTICLE 2
THE CREDITS

SECTION 2.01. Commitments to Lend. (a) Syndicated Loans. During the Revolving Credit Period each Bank severally agrees, on the terms and conditions set forth in this Agreement, to make Loans denominated in Dollars or in an Alternative Currency to any Borrower from time to time in amounts such that (i) such Bank's Outstanding Committed Amount shall not exceed its Commitment and (ii) the Total Outstanding Amount shall not exceed the aggregate amount of the Commitments. Each Borrowing under this subsection (other than a Swingline Takeout Borrowing) shall be in a minimum aggregate Dollar Amount of $5,000,000 and, in the case of a Dollar-Denominated Borrowing, a multiple of

$1,000,000 (except that any such Borrowing may be in the aggregate amount available to the Borrowers in accordance with Section 3.02) and shall be made from the several Banks ratably in proportion to their respective Commitments. Within the foregoing limits, the Borrower may borrow under this Section, repay, or to the extent permitted by Section 2.12, prepay Loans and reborrow at any time during the Revolving Credit Period under this Section.

(b) Swingline Loans. From time to time prior to the Termination Date, the Swingline Bank agrees, on the terms and conditions set forth in this Agreement, to make loans to the Company in Dollars pursuant to this subsection from time to time in amounts such that (i) its Outstanding Committed Amount shall not exceed the amount of its Commitment and (ii) the aggregate principal amount of Swingline Loans at any time outstanding shall not exceed $20,000,000. Within the foregoing limits, the Company may borrow under this subsection, repay or, to the extent permitted by Section 2.12, prepay Loans and reborrow at any time during the Revolving Credit Period under this subsection; provided that the proceeds of a Swingline Borrowing may not be used, in whole or in part, to refund any prior Swingline Borrowing. Each Borrowing under this subsection 2.01(b) shall be in an aggregate principal amount of $2,000,000 or any larger multiple of $500,000 (except that any such Borrowing may be in the aggregate amount available in accordance with Section 3.02).

SECTION 2.02. Method of Committed Borrowing. The Borrower shall give the Administrative Agent notice (a "Notice of Committed Borrowing") (i) not later than 11:00 A.M. (New York City time) on (w) the date of each Base Rate Borrowing, (x) the second Domestic Business Day before each CD Borrowing, (y) the third Euro-Dollar Business Day before each Euro-Dollar Borrowing, and (z) the fourth Euro-Currency Business Day before each Alternative Currency Borrowing and (ii) not later than 2:00 P.M. (New York City time) on the date of each Swingline Borrowing, specifying:

(a) the date of such Borrowing, which shall be a Domestic Business Day in the case of a Domestic Borrowing or a Swingline Borrowing and a Euro-Dollar Business Day in the case of a Euro-Dollar Borrowing;

(b) the currency and the aggregate amount (in such currency) of such Borrowing;

(c) whether the Loans comprising such Borrowing are to be Swingline Loans;

(d) in the case of a Syndicated Borrowing in Dollars, whether the Loans comprising such Borrowing are to bear interest initially at the Base Rate, a CD Rate or a Euro-Currency Rate; and

(e) in the case of a Fixed Rate Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.

SECTION 2.03. Competitive Bid Borrowings. (a) The Competitive Bid Option. In addition to Committed Borrowings pursuant to Section 2.01, the Borrower may, as set forth in this Section, request the Banks to make offers to make Competitive Bid Loans in Dollars to the Borrower from time to time during the Revolving Credit Period. The Banks may, but shall have no obligation to, make such offers and the Borrower may, but shall have no obligation to, accept any such offers in the manner set forth in this Section.

(b) Competitive Bid Quote Request. When the Borrower wishes to request offers to make Competitive Bid Loans under this Section, it shall transmit to the Administrative Agent by telex or facsimile a Competitive Bid Quote Request substantially in the form of Exhibit B hereto so as to be received not later than 10:30 A.M. (New York City time) on (x) the fifth Euro-Dollar Business Day before the date of Borrowing proposed therein, in the case of a LIBOR Auction or (y) the Domestic Business Day next preceding the date of Borrowing proposed therein, in the case of an Absolute Rate Auction (or, in either case, such other time or date as the Borrower and the Administrative Agent shall have mutually agreed and shall have notified to the Banks not later than the date of the Competitive Bid Quote Request for the first LIBOR Auction or Absolute Rate Auction for which such change is to be effective) specifying:

(i) the proposed date of Borrowing, which shall be a Euro-Dollar Business Day in the case of a LIBOR Auction or a Domestic Business Day in the case of an Absolute Rate Auction,

(ii) the aggregate amount of such Borrowing, which shall be $5,000,000 or a larger multiple of $1,000,000,

(iii) the duration of the Interest Period applicable thereto, subject to the provisions of the definition of Interest Period, and

(iv) whether the Competitive Bid Quotes requested are to set forth a Competitive Bid Margin or a Competitive Bid Absolute Rate.

The Borrower may request offers to make Competitive Bid Loans for more than one Interest Period in a single Competitive Bid Quote Request. No Competitive Bid Quote Request shall be given within five Euro-Dollar Business Days (or such other number of days as the Borrower and the Administrative Agent may agree) of any other Competitive Bid Quote Request.

(c) Invitation for Competitive Bid Quotes. Promptly after receiving a Competitive Bid Quote Request, the Administrative Agent shall send to the Banks by telex or facsimile an Invitation for Competitive Bid Quotes substantially in the form of Exhibit C hereto, which shall constitute an invitation by the Borrower to each Bank to submit Competitive Bid Quotes offering to make the Competitive Bid Loans to which such Competitive Bid Quote Request relates in accordance with this Section.

(d) Submission and Contents of Competitive Bid Quotes. (i) Each Bank may submit a Competitive Bid Quote containing an offer or offers to make Competitive Bid Loans in response to any Invitation for Competitive Bid Quotes. Each Competitive Bid Quote must comply with the requirements of this subsection 2.03(d) and must be submitted to the Administrative Agent by telex or facsimile at its address referred to in Section 11.01 not later than (x) 2:00 P.M. (New York City time) on the fourth Euro-Dollar Business Day before the proposed date of Borrowing, in the case of a LIBOR Auction or (y) 9:30 A.M. (New York City time) on the proposed date of Borrowing, in the case of an Absolute Rate Auction (or, in either case, such other time or date as the Borrower and the Administrative Agent shall have mutually agreed and shall have notified to the Banks not later than the date of the Competitive Bid Quote Request for the first LIBOR Auction or Absolute Rate Auction for which such change is to be effective); provided that Competitive Bid Quotes submitted by the Administrative Agent (or any affiliate of the Administrative Agent) in the capacity of a Bank may be submitted, and may only be submitted, if the Administrative Agent or such affiliate notifies the Borrower of the terms of the offer or offers contained therein not later than (x) one hour before the deadline for the other Banks, in the case of a LIBOR Auction or (y) 15 minutes before the deadline for the other Banks, in the case of an Absolute Rate Auction. Subject to Articles 3 and 8, any Competitive Bid Quote so made shall not be revocable except with the written consent of the Administrative Agent given on the instructions of the Borrower.

(ii) Each Competitive Bid Quote shall be substantially in the form of Exhibit D hereto and shall in any case specify:

(A) the proposed date of Borrowing,

(B) the principal amount of the Competitive Bid Loan for which each such offer is being made, which principal amount (w) may be greater than or less than the Commitment of the quoting Bank, (x) must be $5,000,000 or a larger multiple of $1,000,000, (y) may not exceed the principal amount of Competitive Bid Loans for which offers were requested and (z) may be subject to an aggregate limitation as to the principal amount of Competitive Bid Loans for which offers being made by such quoting Bank may be accepted,

(C) in the case of a LIBOR Auction, the margin above or below the applicable London Interbank Offered Rate (the "Competitive Bid Margin") offered for each such Competitive Bid Loan, expressed as a percentage (specified to the nearest 1/10,000(th) of 1%) to be added to or subtracted from such base rate,

(D) in the case of an Absolute Rate Auction, the rate of interest per annum (specified to the nearest 1/10,000(th) of 1%) (the "Competitive Bid Absolute Rate") offered for each such Competitive Bid Loan, and

(E) the identity of the quoting Bank.

A Competitive Bid Quote may set forth up to five separate offers by the quoting Bank with respect to each Interest Period specified in the related Invitation for Competitive Bid Quotes.

(iii) Any Competitive Bid Quote shall be disregarded if it:

(A) is not substantially in conformity with Exhibit D hereto or does not specify all of the information required by subsection (d)(ii) above;

(B) contains qualifying, conditional or similar language;

(C) proposes terms other than or in addition to those set forth in the applicable Invitation for Competitive Bid Quotes; or

(D) arrives after the time set forth in subsection (d)(i).

(e) Notice to Borrower. The Administrative Agent shall promptly notify the Borrower of the terms of (i) any Competitive Bid Quote submitted by a Bank that is in accordance with subsection (d) and (ii) any Competitive Bid Quote that

amends, modifies or is otherwise inconsistent with a previous Competitive Bid Quote submitted by such Bank with respect to the same Competitive Bid Quote Request. Any such subsequent Competitive Bid Quote shall be disregarded by the Administrative Agent unless such subsequent Competitive Bid Quote is submitted solely to correct a manifest error in such former Competitive Bid Quote. The Administrative Agent's notice to the Borrower shall specify (A) the aggregate principal amount of Competitive Bid Loans for which offers have been received for each Interest Period specified in the related Competitive Bid Quote Request, (B) the respective principal amounts and Competitive Bid Margins or Competitive Bid Absolute Rates, as the case may be, so offered and (C) if applicable, limitations on the aggregate principal amount of Competitive Bid Loans for which offers in any single Competitive Bid Quote may be accepted.

(f) Acceptance and Notice by Borrower. Not later than 10:30 A.M. (New York City time) on (x) the third Euro-Dollar Business Day before the proposed date of Borrowing, in the case of a LIBOR Auction or (y) the proposed date of Borrowing, in the case of an Absolute Rate Auction (or, in either case, such other time or date as the Borrower and the Administrative Agent shall have mutually agreed and shall have notified to the Banks not later than the date of the Competitive Bid Quote Request for the first LIBOR Auction or Absolute Rate Auction for which such change is to be effective), the Borrower shall notify the Administrative Agent of its acceptance or non-acceptance of the offers so notified to it pursuant to subsection (e). In the case of acceptance, such notice (a "Notice of Competitive Bid Borrowing") shall specify the aggregate principal amount of offers for each Interest Period that are accepted. The Borrower may accept any Competitive Bid Quote in whole or in part; provided that:

(i) the aggregate principal amount of each Competitive Bid Borrowing may not exceed the applicable amount set forth in the related Competitive Bid Quote Request;

(ii) the principal amount of each Competitive Bid Borrowing must be $5,000,000 or a larger multiple of $1,000,000;

(iii) acceptance of offers may only be made on the basis of ascending Competitive Bid Margins or Competitive Bid Absolute Rates, as the case may be; and

(iv) the Borrower may not accept any offer that is described in subsection (d)(iii) or that otherwise fails to comply with the requirements of this Agreement.

(g) Allocation by Administrative Agent. If offers are made by two or more Banks with the same Competitive Bid Margins or Competitive Bid Absolute Rates, as the case may be, for a greater aggregate principal amount than the amount in respect of which such offers are accepted for the related Interest Period, the principal amount of Competitive Bid Loans in respect of which such offers are accepted shall be allocated by the Administrative Agent among such Banks as nearly as possible (in multiples of $1,000,000, as the Administrative Agent may deem appropriate) in proportion to the aggregate principal amounts of such offers. Determinations by the Administrative Agent of the amounts of Competitive Bid Loans shall be conclusive in the absence of manifest error.

SECTION 2.04. Notice to Banks; Funding of Loans.

(a) Upon receipt of a Notice of Borrowing, the Administrative Agent shall promptly (but in any event on the same day) notify each Bank of the contents thereof and of such Bank's ratable share (if any) of such Borrowing and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) On the date of each Borrowing, each Bank participating therein shall make available its ratable share of such Borrowing:

(A) if such Borrowing is to be made in Dollars, not later than 12:00 Noon (New York City time), in Federal or other funds immediately available in New York City, to the Administrative Agent at its office specified in or pursuant to Section 11.01; or

(B) if such Borrowing is to be made in an Alternative Currency, in such Alternative Currency (in such funds as may then be customary for the settlement of international transactions in such Alternative Currency) to the account of the Administrative Agent at such time and place as shall have been notified by the Administrative Agent to the Borrower and the Banks.

Unless the Administrative Agent determines that any applicable condition specified in Article 3 has not been satisfied, the Administrative Agent will make the funds so received from the Banks available to the Borrower at the aforesaid address.

(c) Unless the Administrative Agent shall have received notice from a Bank prior to the date of any Borrowing that such Bank will not make available to the Administrative Agent such Bank's share of such Borrowing, the Administrative Agent may assume that such Bank has made such share available to the Administrative Agent on the date of such Borrowing in accordance with

subsections (b) of this Section 2.04 and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have so made such share available to the Administrative Agent, such Bank and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent, at the Federal Funds Rate (if such Borrowing is in Dollars) or the applicable London Interbank Offered Rate (if such Borrowing is in an Alternative Currency). If such Bank shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Bank's Loan included in such Borrowing for purposes of this Agreement.

SECTION 2.05. Notes. (a) The Loans of each Bank to each Borrower shall be evidenced by a single Note of such Borrower payable to the order of such Bank for the account of its Applicable Lending Office in an amount equal to the aggregate unpaid principal amount of such Bank's Loans to such Borrower.

(b) Each Bank may, by notice to the Borrower and the Administrative Agent, request that its Loans of a particular currency or type be evidenced by a separate Note in an amount equal to the aggregate unpaid principal amount of such Loans. Each such Note shall be in substantially the form of Exhibit A hereto with appropriate modifications to reflect the fact that it evidences solely Loans of the relevant type. Each reference in this Agreement to the "Note" of such Bank shall be deemed to refer to and include any or all of such Notes, as the context may require.

(c) Upon receipt of each Bank's Note pursuant to Section 3.01(a), the Administrative Agent shall forward such Note to such Bank. Each Bank shall record the date, currency, amount, type and maturity of each Loan made by it and the date and amount of each payment of principal made by the Borrower with respect thereto, and may, if such Bank so elects in connection with any transfer or enforcement of its Note, endorse on the schedule forming a part thereof appropriate notations to evidence the foregoing information with respect to each such Loan then outstanding; provided that the failure of any Bank to make any such recordation or endorsement shall not affect the obligations of any Borrower hereunder or under the Notes. Each Bank is hereby irrevocably authorized by each Borrower so to endorse its Note and to attach to and make a part of its Note a continuation of any such schedule as and when required.

SECTION 2.06. Maturity of Loans. (a) Each Syndicated Loan shall mature, and the principal amount thereof shall be due and payable, together with accrued interest thereon, on the Termination Date.

(b) Each Swingline Loan included in any Swingline Borrowing and each Competitive Bid Loan included in any Competitive Bid Borrowing shall mature, and the principal amount thereof shall be due and payable (together with interest accrued thereon), on the last day of the Interest Period applicable to such Borrowing.

SECTION 2.07. Interest Rates. (a) Each Base Rate Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due, at a rate per annum equal to the Base Rate for such day. Such interest shall be payable in arrears on each Quarterly Date and, with respect to the principal amount of any Base Rate Loan converted to a CD Loan or a Euro-Dollar Loan, on each date a Base Rate Loan is so converted. Any overdue principal of or overdue interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to Base Rate Loans for such day.

(b) Each CD Loan shall bear interest on the outstanding principal amount thereof, for each day during each Interest Period applicable thereto, at a rate per annum equal to the sum of the CD Margin for such day plus the Adjusted CD Rate applicable to such Interest Period; provided that if any CD Loan shall, as a result of clause (2)(b) of the definition of Interest Period, have an Interest Period of less than 30 days, such CD Loan shall bear interest during such Interest Period at the rate applicable to Base Rate Loans during such period. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than 90 days, at intervals of 90 days after the first day thereof. Any overdue principal of or overdue interest on any CD Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the higher of (i) the sum of the CD Margin for such day plus the Adjusted CD Rate applicable to such Loan at the date such payment was due and (ii) the rate applicable to Base Rate Loans for such day.

The "Adjusted CD Rate" applicable to any Interest Period means a rate per annum determined pursuant to the following formula:

$$ACDR = \left[\frac{CDBR}{1.00 - DRP} \right]^{*} + AR$$

ACDR = Adjusted CD Rate
CDBR = CD Base Rate
DRP = Domestic Reserve Percentage
AR = Assessment Rate

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* The amount in brackets being rounded upward, if necessary, to the next higher 1/100 of 1%

The "CD Base Rate" applicable to any Interest Period is the rate of interest determined by the Administrative Agent to be the average (rounded upward, if necessary, to the next higher 1/100 of 1%) of the prevailing rates per annum bid at 10:00 A.M. (New York City time) (or as soon thereafter as practicable) on the first day of such Interest Period by two or more New York certificate of deposit dealers of recognized standing for the purchase at face value from each CD Reference Bank of its certificates of deposit in an amount comparable to the principal amount of the CD Loan of such CD Reference Bank to which such Interest Period applies and having a maturity comparable to such Interest Period.

"Domestic Reserve Percentage" means for any day that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including without limitation any basic, supplemental or emergency reserves) for a member bank of the Federal Reserve System in New York City with deposits exceeding five billion dollars in respect of new non-personal time deposits in dollars in New York City having a maturity comparable to the related Interest Period and in an amount of $100,000 or more. The Adjusted CD Rate shall be adjusted automatically on and as of the effective date of any change in the Domestic Reserve Percentage.

"Assessment Rate" means for any day the annual assessment rate in effect on such day which is payable by a member of the Bank Insurance Fund classified as adequately capitalized and within supervisory subgroup "A" (or a comparable successor assessment risk classification) within the meaning of 12 C.F.R. ss. 327.4(a) (or any successor provision) to the Federal Deposit Insurance

Corporation (or any successor) for such Corporation's (or such successor's) insuring time deposits at offices of such institution in the United States. The Adjusted CD Rate shall be adjusted automatically on and as of the effective date of any change in the Assessment Rate.

(c) Each Euro-Currency Loan shall bear interest on the outstanding principal amount thereof, for each day during each Interest Period applicable thereto, at a rate per annum equal to the sum of the Euro-Currency Margin for such day plus the London Interbank Offered Rate applicable to such Interest Period. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof.

The "London Interbank Offered Rate" applicable to any Euro-Currency Loan for any Interest Period means the rate appearing on the Screen at approximately 11:00 A.M. (London time) on the Rate Fixing Date as the rate for deposits in Dollars or the relevant Alternative Currency with a maturity comparable to such Interest Period. If no rate appears on the Screen for the necessary currency and period, then the "London Interbank Offered Rate" with respect to such Euro-Currency Loan for such Interest Period shall be the rate at which deposits of that currency with a maturity comparable to such Interest Period are offered to each of the Euro-Currency Reference Banks in the London interbank market at approximately 11:00 A.M. (London time), on the Rate Fixing Date.

The "Screen" means (i) with respect to Dollar-Denominated Loans, Telerate Page 3750 and (ii) with respect to Alternative Currency Loans, the Telerate page selected by the Administrative Agent that displays rates for inter-bank deposits in the appropriate Alternative Currency. The Administrative Agent may nominate an alternative source of screen rates if these pages are replaced by others which display rates for inter-bank deposits offered by leading banks in London.

"Rate Fixing Date" means, with respect to any Interest Period, the date falling two Euro-Currency Business Days before the first day of such Interest Period.

(d) Any overdue principal of or interest on any Euro-Currency Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the higher of (i) the sum of 2% plus the Euro-Currency Margin for such day plus the London Interbank Offered Rate applicable to such Loan at the date such payment was due and (ii) the sum of 2% plus the Euro-Currency Margin for such day plus the quotient obtained (rounded upward, if necessary, to the next

higher 1/100 of 1%) by dividing (x) the average (rounded upward, if necessary, to the next higher 1/16 of 1%) of the respective rates per annum at which one day (or, if such amount due remains unpaid more than three Euro-Currency Business Days, then for such other period of time not longer than three months as the Administrative Agent may select) deposits in an amount approximately equal to such overdue payment due to each of the Euro-Currency Reference Banks are offered to such Euro-Currency Reference Bank in the London interbank market for the applicable period determined as provided above by (y) 1.00 minus the Euro-Currency Reserve Percentage (or, if the circumstances described in clause (a) or (b) of Section 8.01 shall exist with respect to a payment due in Dollars, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day).

(e) Each Swingline Loan shall bear interest on the outstanding principal amount thereof, for each day during the Interest Period applicable thereto, at a rate per annum equal to the Base Rate for such day or such other rate as may be from time to time determined by mutual agreement between the Swingline Bank and the Borrower. Interest on each Swingline Loan shall be payable at the maturity of such Loan. Any overdue principal of or interest on any Swingline Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the Base Rate for such day.

(f) Subject to Section 8.01, the unpaid principal amount of each Competitive Bid LIBOR Loan shall bear interest on the outstanding principal amount thereof, for the Interest Period applicable thereto, at a rate per annum equal to the sum of the London Interbank Offered Rate for such Interest Period (determined in accordance with Section 2.07(c) as if the related Competitive Bid LIBOR Borrowing were a Euro-Currency Borrowing) plus (or minus) the Competitive Bid Margin quoted by the Bank making such Loan. The unpaid principal amount of each Competitive Bid Absolute Rate Loan shall bear interest on the outstanding principal amount thereof, for the Interest Period applicable thereto, at a rate per annum equal to the Competitive Bid Absolute Rate quoted by the Bank making such Loan. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof. Any overdue principal of or interest on any Competitive Bid Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the Base Rate for such day.

(g) The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the participating Banks of each rate of interest so

determined, and its determination thereof shall be conclusive in the absence of manifest error.

(h) Each Reference Bank agrees to use its best efforts to furnish quotations to the Administrative Agent as contemplated hereby. If any Reference Bank does not furnish a timely quotation, the Administrative Agent shall determine the relevant interest rate on the basis of the quotation or quotations furnished by the remaining Reference Bank or Banks or, if none of such quotations is available on a timely basis, the provisions of Section 8.01 shall apply.

SECTION 2.08. Fees. (a) The Company shall pay to the Administrative Agent for the account of the Banks ratably a facility fee in Dollars at the Facility Fee Rate (determined daily in accordance with the Pricing Schedule) on the daily aggregate amount of the Credit Exposures. Such facility fee shall accrue from and including the Effective Date to but excluding the date of the Credit Exposures are reduced to zero.

(b) The Borrower shall pay to the Administrative Agent (i) for the account of the Banks ratably a letter of credit fee in Dollars accruing daily on the aggregate Dollar Amount of all outstanding Letters of Credit at the Letter of Credit Fee Rate (determined daily in accordance with the Pricing Schedule) and (ii) for the account of each Issuing Bank a letter of credit fronting fee accruing daily on the aggregate Dollar Amount of all Letters of Credit issued by such Issuing Bank at a rate per annum mutually agreed from time to time by the Borrower and such Issuing Bank.

(c) Accrued fees under this Section shall be payable quarterly in arrears on each Quarterly Date and on the date of termination of the Commitments in their entirety (and, if later, the date the Credit Exposures are reduced to zero).

SECTION 2.09. Optional Termination or Reduction of Commitments. During the Revolving Credit Period, the Company may, upon at least three Domestic Business Days' notice to the Administrative Agent, (i) terminate the Commitments at any time, if no Loans or Letter of Credit Liabilities are outstanding at such time or (ii) ratably and permanently reduce from time to time by an aggregate amount of $5,000,000 or a larger multiple of $1,000,000, the aggregate amount of the Commitments in excess of the Total Outstanding Amount.

SECTION 2.10. Method of Electing Interest Rates. (a) The Loans included in each Syndicated Borrowing of Dollar-Denominated Loans shall bear interest initially at the type of rate specified by the Borrower in the applicable Notice of

Committed Borrowing. Thereafter, the Borrower may from time to time elect to change or continue the type of interest rate borne by each Group of Loans (subject in each case to the provisions of Article 8 and the last sentence of this subsection (a)), as follows:

(i) if such Loans are Base Rate Loans, the Borrower may elect to convert such Loans to CD Loans as of any Domestic Business Day or to Euro-Dollar Loans as of any Euro-Dollar Business Day;

(ii) if such Loans are CD Loans, the Borrower may elect to convert such Loans to Base Rate Loans or Euro-Dollar Loans or elect to continue such Loans as CD Loans for an additional Interest Period, subject to Section 2.14 in the case of any such conversion or continuation effective on any day other than the last day of the then current Interest Period applicable to such Loans; and

(iii) if such Loans are Euro-Dollar Loans, the Borrower may elect to convert such Loans to Base Rate Loans or CD Loans or elect to continue such Loans as Euro-Dollar Loans for an additional Interest Period, subject to Section 2.14 in the case of any such conversion or continuation effective on any day other than the last day of the then current Interest Period applicable to such Loans.

Each such election shall be made by delivering a notice (a "Notice of Interest Rate Election") to the Administrative Agent not later than 11:00 A.M. (New York City time) on the third Euro-Dollar Business Day before the conversion or continuation selected in such notice is to be effective (unless the relevant Loans are to be converted to Domestic Loans of the other type or are CD Rate Loans to be continued as CD Rate Loans for an additional Interest Period, in which case such notice shall be delivered to the Administrative Agent not later than 11:00 A.M. (New York City time) on the second Domestic Business Day before such conversion or continuation is to be effective). A Notice of Interest Rate Election may, if it so specifies, apply to only a portion of the aggregate principal amount of the relevant Group of Loans, provided that (i) such portion is allocated ratably among the Loans comprising such Group and (ii) the portion to which such Notice applies, and the remaining portion to which it does not apply, are each $5,000,000 or any larger multiple of $1,000,000.

(b) Each Notice of Interest Rate Election shall specify:

(i) the Group of Loans (or portion thereof) to which such notice applies;

(ii) the date on which the conversion or continuation selected in such notice is to be effective, which shall comply with the applicable clause of subsection 2.10(a) above;

(iii) if the Loans comprising such Group are to be converted, the new type of Loans and, if the Loans being converted are to be Fixed Rate Loans, the duration of the next succeeding Interest Period applicable thereto; and

(iv) if such Loans are to be continued as CD Loans or Euro-Dollar Loans for an additional Interest Period, the duration of such additional Interest Period.

Each Interest Period specified in a Notice of Interest Rate Election shall comply with the provisions of the definition of the term "Interest Period".

(c) Upon receipt of a Notice of Interest Rate Election from the Borrower pursuant to subsection 2.10(a) above, the Administrative Agent shall promptly notify each Bank of the contents thereof and such notice shall not thereafter be revocable by the Borrower. If no Notice of Interest Rate Election is timely received prior to the end of an Interest Period for any Group of Loans, the Borrower shall be deemed to have elected that such Group of Loans be converted to Base Rate Loans as of the last day of such Interest Period.

(d) An election by the Borrower to change or continue the rate of interest applicable to any Group of Loans pursuant to this Section shall not constitute a "Borrowing" subject to the provisions of Section 3.02.

(e) The initial Interest Period for each Syndicated Borrowing of Alternative Currency Loans shall be specified by the Borrower in the applicable Notice of Committed Borrowing. The Borrower may specify the duration of each subsequent Interest Period applicable to such Group of Loans by delivering to the Administrative Agent not later than 11:00 A.M. (New York City time) on the fourth Euro-Currency Business Day before the end of the immediately preceding Interest Period, a notice specifying the Group of Loans to which such notice applies and the duration of such subsequent Interest Period (which shall comply with the provisions of the definition of Interest Period). Such notice may, if it so specifies, apply to only a portion of the aggregate principal amount of the relevant Group of Loans; provided that (i) such portion is allocated ratably among the Loans comprising such Group and (ii) the Dollar Amounts of the portion to which such notice applies, and the remaining portion to which it does not apply, are each at least $5,000,000. If no such notice is timely received by the Administrative Agent before the end of any applicable Interest Period, the Borrower shall be

deemed to have elected that the subsequent Interest Period for such Group of Loans shall have a duration of one month (subject to the provisions of the definition of Interest Period).

SECTION 2.11. Scheduled Termination of Commitments. The Commitments shall terminate on the Termination Date, and any Loans then outstanding (together with accrued interest thereon) shall be due and payable on such date.

SECTION 2.12. Optional Prepayments. (a) Subject in the case of any Fixed Rate Loan to Section 2.14, the Borrower may, upon at least one Domestic Business Day's notice to the Administrative Agent, prepay any Group of Domestic Loans, any Swingline Borrowing (or any Competitive Bid Borrowing bearing interest at the Base Rate pursuant to Section 8.01), or upon at least three (four, in the case of Alternative Currency Loans) Euro-Currency Business Days' notice to the Administrative Agent, prepay any Group of Euro-Currency Loans, in each case in whole at any time, or from time to time in part in amounts aggregating $5,000,000 ($1,000,000 in the case of a Swingline Borrowing) or any larger multiple of $1,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Banks included in such Borrowing.

(b) Except as provided in subsection 2.12(a) above the Borrower may not prepay all or any portion of the principal amount of any Competitive Bid Loan prior to the maturity thereof.

(c) Upon receipt of a notice of prepayment pursuant to this Section, the Administrative Agent shall promptly notify each Bank of the contents thereof and of such Bank's ratable share (if any) of such prepayment and such notice shall not thereafter be revocable by the Borrower.

SECTION 2.13. General Provisions as to Payments. (a) The Borrowers shall make each payment of principal of, and interest on, the Dollar-Denominated Loans, of Letter of Credit Liabilities denominated in Dollars and of fees hereunder, not later than 12:00 Noon (New York City time) on the date when due, in Dollars in Federal or other funds immediately available in New York City, to the Administrative Agent at its address referred to in Section 11.01. The Borrowers shall make each payment of principal of, and interest on, the Alternative Currency Loans in the relevant Alternative Currency in such funds as may then be customary for the settlement of international transactions in such Alternative Currency, to such account and at such time and at such place as shall have been notified by the Administrative Agent to the Company and the Banks.

In any event, all payments to be made by the Borrowers hereunder shall be made without condition or deduction for any counterclaim, defense, recoupment or set-off. The Administrative Agent will promptly distribute to each Bank its ratable share of each such payment received by the Administrative Agent for the account of the Banks. Whenever any payment of principal of, or interest on, the Domestic Loans, Swingline Loans or Letter of Credit Liabilities denominated in Dollars or of fees shall be due on a day which is not a Domestic Business Day, the date for payment thereof shall be extended to the next succeeding Domestic Business Day. Whenever any payment of principal of, or interest on, the Euro-Currency Loans shall be due on a day which is not a Euro-Currency Business Day, the date for payment thereof shall be extended to the next succeeding Euro-Currency Business Day unless such Euro-Currency Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Euro-Currency Business Day. Whenever any payment of principal of, or interest on, the Competitive Bid Loans shall be due on a day which is not a Euro-Dollar Business Day, the date for payment thereof shall be extended to the next succeeding Euro-Dollar Business Day. Whenever any payment of principal of or interest on Letter of Credit Liabilities denominated in an Alternative Currency shall be due on a day which is not a Euro-Currency Business Day, the date for payment thereof shall be extended to the next succeeding Euro-Currency Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Banks hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Bank on such due date an amount equal to the amount then due such Bank. If and to the extent that the Borrower shall not have so made such payment, each Bank shall repay to the Administrative Agent forthwith on demand such amount distributed to such Bank together with interest thereon, for each day from the date such amount is distributed to such Bank until the date such Bank repays such amount to the Administrative Agent, at (i) the Federal Funds Rate (if such amount was distributed in Dollars) or (ii) the rate per annum at which one-day deposits in the relevant currency are offered by the principal London office of the Administrative Agent in the London interbank market for such day (if such amount was distributed in an Alternative Currency).

(c) Each payment by the Administrative Agent in Euro will be made in Euro Units rather than National Currency Units, unless the Administrative Agent notifies the recipient otherwise.

(d) The foregoing provisions do not affect the rights of any party under the EMU Legislation or other applicable law to make Euro payments in a National Currency Unit or to receive Euro payments credited to its account in a National Currency Unit.

SECTION 2.14. Funding Losses. If the Borrower makes any payment of principal with respect to any Fixed Rate Loan or any Fixed Rate Loan is converted (pursuant to Article 2, 6 or 8 or otherwise) on any day other than the last day of an Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to Section 2.07(d), or if the Borrower fails to borrow, prepay, convert or continue any Fixed Rate Loans after notice has been given to any Bank in accordance with Section 2.04(a), 2.12(c) or 2.10(c), the Borrower shall reimburse each Bank within 15 days after demand for any resulting loss or expense incurred by it (or by an existing or prospective Participant in the related Loan), including (without limitation) any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or conversion or failure to borrow, prepay, convert or continue, provided that such Bank shall have delivered to the Borrower and the Administrative Agent a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

SECTION 2.15. Computation of Interest and Fees. Interest based on the Prime Rate hereunder shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed (including the first day but excluding the last day). All other interest and fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day); provided that if the Administrative Agent reasonably determines that a different basis of computation is the market convention for a particular Alternative Currency (other than the Euro, British Sterling and Swedish Kronor), such different basis shall be used after notice to such effect has been given to the Company.

SECTION 2.16. Letters of Credit. (a) Subject to the terms and conditions hereof, the Issuing Bank agrees to issue Letters of Credit hereunder denominated in Dollars or in an Alternative Currency from time to time before the tenth day before the Termination Date upon the request of any Borrower; provided that, immediately after each Letter of Credit is issued (i) the Total Outstanding Amount shall not exceed the aggregate amount of the Commitments and (ii) the aggregate Dollar Amount of Letter of Credit Liabilities shall not exceed $50,000,000. Upon the date of issuance by the Issuing Bank of a Letter of Credit, the Issuing Bank shall be deemed, without further action by any party hereto, to have sold to each Bank, and each Bank shall be deemed, without further action by any party hereto,

to have purchased from the Issuing Bank, a participation in such Letter of Credit and the related Letter of Credit Liabilities in the proportion their respective Commitments bear to the aggregate Commitments.

(b) The Borrower shall give the Issuing Bank notice at least five Euro-Currency Business Days prior to the requested issuance of a Letter of Credit specifying the date such Letter of Credit is to be issued, and describing the terms of such Letter of Credit and the nature of the transactions to be supported thereby (such notice, including any such notice given in connection with the extension of a Letter of Credit, a "Notice of Issuance"). Upon receipt of a Notice of Issuance, the Issuing Bank shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Bank of the contents thereof and of the amount of such Bank's participation in such Letter of Credit. The issuance by the Issuing Bank of each Letter of Credit shall, in addition to the conditions precedent set forth in Article 3, be subject to the conditions precedent that such Letter of Credit shall be in such form and contain such terms as shall be satisfactory to the Issuing Bank and that the Borrower shall have executed and delivered such other instruments and agreements relating to such Letter of Credit as the Issuing Bank shall have reasonably requested. The Borrower shall also pay to the Issuing Bank for its own account issuance, drawing, amendment and extension charges in the amounts and at the times as agreed between the Borrower and the Issuing Bank. The extension or renewal of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit, and if any Letter of Credit contains a provision pursuant to which it is deemed to be extended unless notice of termination is given by the Issuing Bank, the Issuing Bank shall timely give such notice of termination unless it has theretofore timely received a Notice of Issuance and the other conditions to issuance of a Letter of Credit have also theretofore been met with respect to such extension.

(c) No Letter of Credit shall have a term extending or be so extendible beyond the fifth Euro-Currency Business Day preceding the Termination Date. Subject to the preceding sentence, each Letter of Credit issued hereunder shall expire on or before the first anniversary of the date of such issuance; provided that the expiry date of any Letter of Credit may be extended from time to time (i) at the Borrower's request or (ii) in the case of an Evergreen Letter of Credit, automatically, in each case so long as such extension is for a period not exceeding one year and is granted (or the last day on which notice can be given to prevent such extension occurs) no earlier than three months before the then existing expiry date thereof.

(d) Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the Issuing Bank shall notify the Administrative Agent and the Administrative Agent shall promptly notify the

Borrower and each other Bank as to the amount to be paid as a result of such demand or drawing and the payment date. The Borrower shall be irrevocably and unconditionally obligated forthwith to reimburse the Issuing Bank for any amounts paid by the Issuing Bank upon any drawing under any Letter of Credit, in the currency of such payment (a "Reimbursement Obligation") without presentment, demand, protest or other formalities of any kind. All such amounts paid by the Issuing Bank and remaining unpaid by the Borrower shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus (i) if such amount is denominated in Dollars, the Base Rate for such day and (ii) if such amount is denominated in an Alternative Currency, the sum of the Euro-Currency Margin plus the rate per annum at which one-day deposits in the relevant currency are offered by the principal London office of the Administrative Agent in the London interbank market for such day. In addition, each Bank will pay to the Administrative Agent, for the account of the Issuing Bank, immediately upon the Issuing Bank's demand at any time during the period commencing after such drawing until reimbursement therefor in full by the Borrower, an amount equal to such Bank's ratable share of such drawing (in proportion to its participation therein), together with interest on such amount for each day from the date of the Issuing Bank's demand for such payment (or, if such demand is made after 12:00 Noon (New York City time) on such date, from the next succeeding Domestic Business Day) to the date of payment by such Bank of such amount at a rate of interest per annum equal to the (i) if such amount is denominated in Dollars, the Federal Funds Rate and (ii) if such amount is denominated in an Alternative Currency, the rate per annum at which one-day deposits in the relevant currency are offered by the principal London office of the Administrative Agent in the London interbank market for such day. The Issuing Bank will pay to each Bank ratably all amounts received from the Borrower for application in payment of its reimbursement obligations in respect of any Letter of Credit, but only to the extent such Bank has made payment to the Issuing Bank in respect of such Letter of Credit pursuant hereto.

(e) The obligations of the Borrower and each Bank under subsection 2.16(d) above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including without limitation the following circumstances:

(i) the use which may be made of the Letter of Credit by, or any acts or omission of, a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting);

(ii) the existence of any claim, set-off, defense or other rights that the Borrower may have at any time against a beneficiary of a Letter of

Credit (or any Person for whom the beneficiary may be acting), the Banks (including the Issuing Bank) or any other Person, whether in connection with this Agreement or the Letter of Credit or any document related hereto or thereto or any unrelated transaction;

(iii) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;

(iv) payment under a Letter of Credit to the beneficiary of such Letter of Credit against presentation to the Issuing Bank of a draft or certificate that does not comply with the terms of the Letter of Credit; or

(v) any other act or omission to act or delay of any kind by any Bank (including the Issuing Bank), the Administrative Agent or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this subsection (v), constitute a legal or equitable discharge of the Borrower's or the Bank's obligations hereunder.

(f) The Borrower hereby indemnifies and holds harmless each Bank (including the Issuing Bank) and the Administrative Agent from and against any and all claims, damages, losses, liabilities, costs or expenses which such Bank or the Administrative Agent may incur (including, without limitation, any claims, damages, losses, liabilities, costs or expenses which the Issuing Bank may incur by reason of or in connection with the failure of any other Bank to fulfill or comply with its obligations to such Issuing Bank hereunder (but nothing herein contained shall affect any rights the Borrower may have against such defaulting Bank)), and none of the Banks (including the Issuing Bank) nor the Administrative Agent nor any of their officers or directors or employees or agents shall be liable or responsible, by reason of or in connection with the execution and delivery or transfer of or payment or failure to pay under any Letter of Credit, including without limitation any of the circumstances enumerated in subsection 2.16(d) above, as well as (i) any error, omission, interruption or delay in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, (ii) any loss or delay in the transmission of any document required in order to make a drawing under a Letter of Credit, and (iii) any consequences arising from causes beyond the control of the Issuing Bank, including without limitation any government acts, or any other circumstances whatsoever in making or failing to make payment under such Letter of Credit; provided that the Borrower shall not be required to indemnify the Issuing Bank for any claims, damages, losses, liabilities, costs or expenses, and the Borrower shall have a claim for direct (but not consequential) damage suffered by it, to the extent found by a court of competent jurisdiction to have been caused by (x) the willful misconduct

or gross negligence of the Issuing Bank in determining whether a request presented under any Letter of Credit complied with the terms of such Letter of Credit or (y) the Issuing Bank's failure to pay under any Letter of Credit after the presentation to it of a request strictly complying with the terms and conditions of the Letter of Credit. Nothing in this subsection 2.16(f) is intended to limit the obligations of the Borrower under any other provision of this Agreement. To the extent the Borrower does not indemnify the Issuing Bank as required by this subsection, the Banks agree to do so ratably in accordance with their Commitments.

SECTION 2.17. Regulation D Compensation. Each Bank may require the Borrower to pay, contemporaneously with each payment of interest on the Euro-Currency Loans, additional interest on the related Euro-Currency Loan of such Bank at a rate per annum determined by such Bank up to but not exceeding the excess of (i) (A) the applicable London Interbank Offered Rate divided by (B) one minus the Euro-Currency Reserve Percentage over (ii) the applicable London Interbank Offered Rate. Any Bank wishing to require payment of such additional interest (x) shall so notify the Company and the Administrative Agent, in which case such additional interest on the Euro-Currency Loans of such Bank shall be payable to such Bank at the place indicated in such notice with respect to each Interest Period commencing at least three Euro-Currency Business Days after such Bank gives such notice and (y) shall notify the Borrower at least five Euro-Currency Business Days before each date on which interest is payable on the Euro-Currency Loans of the amount then due it under this Section.

SECTION 2.18. Takeout of Swingline Loans. (a) In the event that any Swingline Borrowing shall not be repaid in full at or prior to the maturity thereof, the Administrative Agent shall, on behalf of the Company (the Company hereby irrevocably directing and authorizing the Administrative Agent so to act on its behalf), give a Notice of Borrowing requesting the Banks, including the Swingline Bank, to make a Base Rate Borrowing in an amount equal to the unpaid principal amount of such Swingline Borrowing. Each Bank will make the proceeds of its Base Rate Loan included in such Borrowing available to the Administrative Agent for the account of the Swingline Bank on such date in accordance with Section 2.04. The proceeds of such Base Rate Borrowing shall be immediately applied to repay such Swingline Borrowing.

(b) If, for any reason, a Base Rate Borrowing may not be (as determined by the Administrative Agent in its sole discretion), or is not, made pursuant to subsection (a) above to refund Swingline Loans as required by said clause, then, effective on the date such Borrowing would otherwise have been made, each Bank severally, unconditionally and irrevocably agrees that it shall purchase an undivided participating interest in such Swingline Loans ("Unrefunded

Swingline Loans") in an amount equal to the amount of the Loan which otherwise would have been made by such Bank pursuant to subsection (a), which purchase shall be funded by the time such Loan would have been required to be funded pursuant to Section 2.04 by transfer to the Administrative Agent, for the account of the Swingline Bank, in immediately available funds, of the amount of its participation.

(c) Whenever, at any time after the Swingline Bank has received from any Bank payment in full for such Bank's participating interest in a Swingline Loan, the Swingline Bank (or the Administrative Agent on its behalf) receives any payment on account thereof, the Swingline Bank (or the Administrative Agent, as the case may be) will promptly distribute to such Bank its participating interest in such payment (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Bank's participating interest was outstanding and funded); provided, however, that in the event that such payment is subsequently required to be returned, such Bank will return to the Swingline Bank (or the Administrative Agent, as the case may be) any portion thereof previously distributed by the Swingline Bank (or the Administrative Agent, as the case may be) to it.

(d) Each Bank's obligation to purchase and fund participating interests pursuant to this Section shall be absolute and unconditional and shall not be affected by any circumstance, including, without limitation: (i) any setoff, counterclaim, recoupment, defense or other right which such Bank or the Company may have against the Swingline Bank, or any other Person for any reason whatsoever; (ii) the occurrence or continuance of a Default or the failure to satisfy any of the conditions specified in Article 3; (iii) any adverse change in the condition (financial or otherwise) of the Company; (iv) any breach of this Agreement by the Company or any Bank; or (v) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing.

SECTION 2.19. Increased Commitments, Additional Banks. (a) From time to time (but no more than two times), the Company may, upon at least 15 Domestic Business Days' notice to the Administrative Agent (which shall promptly provide a copy of such notice to the Banks), propose to increase the aggregate amount of the Commitments by an amount not less than $25,000,000 (the amount of any such increase, the "Increased Commitments"). Each Bank party to this Agreement at such time shall have the right (but no obligation), for a period of 15 days following receipt of such notice, to elect by notice to the Company and the Administrative Agent to increase its Commitment by a principal amount which bears the same ratio to the Increased Commitments as its then Commitment bears to the aggregate Commitments then existing. Any Bank not

responding within 15 days of receipt of such notice shall be deemed to have declined to increase its Commitment.

(b) If any Bank party to this Agreement shall not elect to increase its Commitment pursuant to subsection (a) of this Section, the Company may, within 10 days of the Banks' response, designate one or more of the existing Banks or other financial institutions acceptable to the Administrative Agent and the Company which at the time agree to (i) in the case of any such lender that is an existing Bank, increase its Commitment and (ii) in the case of any other such lender (an "Additional Bank"), become a party to this Agreement with a Commitment of not less than $10,000,000. The sum of the increases in the Commitments of the existing Banks pursuant to this subsection (b) plus the Commitments of the Additional Banks shall not in the aggregate exceed the unsubscribed amount of the Increased Commitments.

(c) Any increase in the Commitments pursuant to this Section 2.19 shall be subject to satisfaction of the following conditions:

(i) before and after giving effect to such increase, all representations and warranties contained in Article 4 shall be true;

(ii) at the time of such increase, no Default shall have occurred and be continuing or would result from such increase; and

(iii) after giving effect to such increase, the aggregate amount of all increases in Commitments made pursuant to this Section 2.19 shall not exceed $100,000,000.

(d) An increase in the aggregate amount of the Commitments pursuant to this Section 2.19 shall become effective upon the receipt by the Administrative Agent of (i) an agreement in form and substance satisfactory to the Administrative Agent signed by the Company, by each Additional Bank and by each other Bank whose Commitment is to be increased, setting forth the new Commitments of such Banks and setting forth the agreement of each Additional Bank to become a party to this Agreement and to be bound by all the terms and provisions hereof, (ii) such evidence of appropriate corporate authorization on the part of the Borrower with respect to the Increased Commitments and such opinions of counsel for the Company with respect to the Increased Commitments as the Administrative Agent may reasonably request and (iii) such evidence of the satisfaction of the conditions set forth in subsection (c) above as the Administrative Agent may reasonably request.

(e) Upon any increase in the aggregate amount of the Commitments pursuant to this Section 2.19, (i) the respective Letter of Credit Liabilities of the Banks shall be redetermined as of the effective date of such increase and (ii) within five Domestic Business Days, in the case of Base Rate Loans then outstanding, and at the end of the then current Interest Period with respect thereto, in the case of Committed Fixed Rate Loans then outstanding, the Borrower shall prepay or repay such Loans in their entirety and, to the extent the Borrower elects to do so and subject to the conditions specified in Article 3, the Borrower shall reborrow Committed Loans from the Banks in proportion to their respective Commitments after giving effect to such increase, until such time as all outstanding Committed Loans are held by the Banks in such proportion.

SECTION 2.20. Currency Equivalents. (a) The Administrative Agent shall determine the Dollar Amount of each Alternative Currency Loan as of the first day of each Interest Period applicable thereto and, in the case of any such Interest Period of more than three months, at three-month intervals after the first day thereof, and shall promptly notify the Borrower and the Banks of each Dollar Amount so determined by it. Each such determination shall be based on the Spot Rate (i) on the date of the related Notice of Committed Borrowing for purposes of the initial such determination for any Alternative Currency Loan and (ii) on the fourth Euro-Currency Business Day prior to the date as of which such Dollar Amount is to be determined, for purposes of any subsequent determination.

(b) The Administrative Agent shall determine the Dollar Amount of the Letter of Credit Liabilities related to each Letter of Credit as of the date of issuance thereof and at three-month intervals after the date of issuance thereof. Each such determination shall be based on the Spot Rate (i) on the date of the related Notice of Issuance, in the case of the initial determination in respect of any Letter of Credit and (ii) on the fourth Euro-Currency Business Day prior to the date as of which such Dollar Amount is to be determined, in the case of any subsequent determination with respect to an outstanding Letter of Credit.

(c) If after giving effect to any such determination of a Dollar Amount, the Total Outstanding Amount exceeds of the aggregate amount of the Commitments or the aggregate Dollar Amount of Alternative Currency Loans and Letter of Credit Liabilities denominated in an Alternative Currency exceeds 105% of the Alternative Currency Sublimit, the Borrowers shall within five Euro-Currency Business Days prepay outstanding Loans (as selected by the Company and notified to the Banks through the Administrative Agent not less than three Euro-Currency Business Days prior to the date of prepayment) or take other action to the extent necessary to eliminate any such excess.

ARTICLE 3
CONDITIONS

SECTION 3.01. Effectiveness. This Agreement shall become effective on the date (the "Effective Date") on which the Administrative Agent shall have received (x) a fee paid by the Company to the Administrative Agent for the account of each Lender in the amount heretofore mutually agreed and (y) each of the following documents, each dated the Effective Date unless otherwise indicated:

(a) counterparts hereof signed by each of the parties hereto (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telex, facsimile transmission or other written confirmation from such party of execution of a counterpart hereof signed by such party);

(b) a duly executed Note of the Company for the account of each Bank dated on or before the Effective Date complying with the provisions of Section 2.05;

(c) an opinion of Fulbright & Jaworski L.L.P., substantially in the form of Exhibit E-1 hereto and covering such additional matters relating to the transactions contemplated hereby as the Required Banks may reasonably request;

(d) an opinion of the General Counsel of the Company, substantially in the form of Exhibit E-2 hereto and covering such additional matters relating to the transactions contemplated hereby as the Required Banks may reasonably request;

(e) an opinion of Davis Polk & Wardwell, special counsel for the Administrative Agent, substantially in the form of Exhibit F hereto and covering such additional matters relating to the transactions contemplated hereby as the Required Banks may reasonably request;

(f) all documents the Administrative Agent may reasonably request relating to the existence of the Company, the corporate authority for and the validity of the Loan Documents, and any other matters relevant hereto, all in form and substance satisfactory to the Administrative Agent; and

(g) evidence satisfactory to the Administrative Agent of the payment of all principal of and interest on any loans outstanding under, and all accrued commitment fees under, the Existing Credit Agreement.

The Administrative Agent shall promptly notify the Company and the Banks of the Effective Date, and such notice shall be conclusive and binding on all parties hereto. The Company and the Banks party to the Existing Credit Agreement, comprising the "Required Banks" as defined therein, hereby agree that (i) the commitments of the banks under the Existing Credit Agreement shall terminate in their entirety immediately and automatically upon the effectiveness of this Agreement, without further action by any party to the Existing Credit Agreement, (ii) all accrued facility fees under the Existing Credit Agreement shall be due and payable at such time and (iii) subject to Section 2.14 of the Existing Credit Agreement, the Company may prepay any and all loans outstanding thereunder on the date of effectiveness of this Agreement.

SECTION 3.02. Borrowings and Issuances of Letters of Credit. The obligation of any Bank to make a Loan on the occasion of any Borrowing and the obligation of the Issuing Bank to issue (or renew or extend the term of) any Letter of Credit is subject to the satisfaction of the following conditions; provided that if such Borrowing is a Swingline Takeout Borrowing, only the conditions set forth in clauses 3.02(a) and 3.02(b) must be satisfied:

(a) receipt (or deemed receipt) by the Administrative Agent of a Notice of Borrowing as required by Section 2.02 or Section 2.03 or receipt by the Issuing Bank of a Notice of Issuance as required by Section 2.16(b), as the case may be;

(b) the fact that, immediately after such Borrowing or issuance of such Letter of Credit (i) the Total Outstanding Amount will not exceed the aggregate amount of the Commitments, (ii) the aggregate outstanding principal amount of Swingline Loans will not exceed $20,000,000, (iii) the aggregate Dollar Amount of Letter of Credit Liabilities will not exceed $50,000,000 and (iv) the aggregate Dollar Amount of Alternative Currency Loans outstanding and Letter of Credit Liabilities denominated in an Alternative Currency will not exceed the Alternative Currency Sublimit;

(c) the fact that, immediately before and after such Borrowing or issuance of such Letter of Credit, no Default shall have occurred and be continuing; and

(d) the fact that the representations and warranties of the Borrower (and of the Company if it is not the Borrower) contained in this Agreement shall be true on and as of the date of such Borrowing or issuance of such Letter of Credit, except to the extent any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty shall be true and correct on and as of such earlier date.

Each Borrowing and issuance of a Letter of Credit hereunder shall be deemed to be a representation and warranty by the Borrower (and by the Company if it is not the Borrower) on the date of such Borrowing as to the facts specified in clauses 3.02(b), 3.02(c) and 3.02(d) (unless such Borrowing is a Swingline Takeout Borrowing).

SECTION 3.03. First Borrowing by Each Eligible Subsidiary. The obligation of each Bank to make a Loan, and the obligation of an Issuing Bank to issue a Letter of Credit, on the occasion of the first Borrowing by or issuance of a Letter of Credit for the account of each Eligible Subsidiary is subject to the satisfaction of the following further conditions:

(a) receipt by the Administrative Agent of a duly executed Note of such Eligible Subsidiary for the account of each Bank dated on or before the date of such Borrowing or issuance and complying with the provisions of Section 2.05;

(b) receipt by the Administrative Agent of an opinion of counsel for such Eligible Subsidiary acceptable to the Administrative Agent, substantially to the effect of Exhibit I hereto and covering such additional matters relating to the transactions contemplated hereby as the Required Banks may reasonably request; and

(c) receipt by the Administrative Agent of all documents which it may reasonably request relating to the existence of such Eligible Subsidiary, the corporate authority for and the validity of the Election to Participate of such Eligible Subsidiary, this Agreement and the Notes of such Eligible Subsidiary, and any other matters relevant thereto, all in form and substance satisfactory to the Administrative Agent.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES

The Company represents and warrants that:

SECTION 4.01. Existence and Power. The Company and each of its Subsidiaries is a corporation, partnership, limited liability company or other entity duly organized, validly existing and, where applicable, in good standing under the laws of their respective jurisdictions of organization and have all powers and all material governmental licenses, authorizations, consents and approvals required to carry on their business as now conducted except where the failure to be in

compliance with any of the foregoing could not reasonably be expected to have a Material Adverse Effect.

SECTION 4.02. Corporate and Governmental Authorization; No Contravention. The execution, delivery and performance by the Company of this Agreement and the Notes are within the Company's corporate powers, have been duly authorized by all necessary action, require no action by or in respect of, or filing with, any governmental body, agency or official and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the certificate of incorporation or by-laws of the Company or of any agreement or instrument evidencing or governing Debt of the Company or any Subsidiary or any other material agreement, judgment, injunction, order, decree or other instrument binding upon the Company or any of its Subsidiaries or result in the creation or imposition of any Lien on any asset of the Company or any of its Subsidiaries.

SECTION 4.03. Binding Effect. This Agreement constitutes a valid and binding agreement of the Company and each Note of the Company, when executed and delivered in accordance with this Agreement, will constitute a valid and binding obligation of the Company, in each case enforceable in accordance with its terms.

SECTION 4.04. Financial Information.

(a) The consolidated balance sheet of the Company and its Consolidated Subsidiaries as of December 31, 2000 and the related consolidated statements of income, common stockholders' equity and cash flows for the fiscal year then ended, reported on by Arthur Andersen LLP and set forth in the Company's 2000 Form 10-K, a copy of which has been delivered to each of the Banks, fairly present, in conformity with generally accepted accounting principles, the consolidated financial position of the Company and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) The unaudited consolidated balance sheet of the Company and its Consolidated Subsidiaries as of September 30, 2001 and the related unaudited consolidated statements of income, common stockholders' equity and cash flows for the nine months then ended, set forth in the Company's Latest Form 10-Q, a copy of which has been delivered to each of the Banks, fairly present, in conformity with generally accepted accounting principles applied on a basis consistent with the financial statements referred to in subsection 4.04(a), the consolidated financial position of the Company and its Consolidated Subsidiaries

as of such date and their consolidated results of operations and cash flows for such nine-month period (subject to normal year-end adjustments).

(c) Since December 31, 2000, there has been no material adverse change in the business, financial position, results of operations or prospects of the Company and its Consolidated Subsidiaries, considered as a whole.

SECTION 4.05. Litigation. There is no action, suit or proceeding pending against, or to the knowledge of the Company threatened against or affecting, the Company or any of its Subsidiaries before any court or arbitrator or any governmental body, agency or official in which there is a reasonable possibility of an adverse decision which could materially adversely affect the business, consolidated financial position or consolidated results of operations of the Company and its Consolidated Subsidiaries, considered as a whole, or which in any manner draws into question the validity of any of the Loan Documents.

SECTION 4.06. Ownership of Capital Stock of Subsidiaries. The Subsidiaries of the Company existing on the date hereof are listed on Schedule 1 hereto. All shares of the capital stock of each Subsidiary of the Company that is a corporation are owned by the Company, directly or indirectly through Subsidiaries, free and clear of all Liens.

SECTION 4.07. Compliance with ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Plan, (ii) failed to make any contribution or payment to any Plan or Multiemployer Plan or in respect of any Benefit Arrangement, or made any amendment to any Plan or Benefit Arrangement, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

SECTION 4.08. Environmental Matters. In the ordinary course of its business, the Company reviews when and as appropriate the effect of Environmental Laws on the business, operations and properties of the Company and its Subsidiaries, in the course of which it identifies and evaluates associated liabilities and costs (including, without limitation, any capital or operating expenditures required for clean-up or closure of properties presently or previously owned, any capital or operating expenditures required to achieve or maintain

compliance with environmental protection standards imposed by law or as a condition of any license, permit or contract, any related constraints on operating activities, including any periodic or permanent shutdown of any facility or reduction in the level of or change in the nature of operations conducted thereat, any costs or liabilities in connection with off-site disposal of wastes or Hazardous Substances, and any actual or potential liabilities to third parties, including employees, and any related costs and expenses). On the basis of this review, the Company has reasonably concluded that such associated liabilities and costs, including the costs of compliance with Environmental Laws, are unlikely to have a Material Adverse Effect.

SECTION 4.09. Taxes. The Company and its Subsidiaries have filed all United States Federal income tax returns and all other material tax returns which are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by the Company or any Subsidiary. The charges, accruals and reserves on the books of the Company and its Subsidiaries in respect of taxes or other governmental charges are, in the opinion of the Company, adequate.

SECTION 4.10. Not an Investment Company. The Company is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

SECTION 4.11. Full Disclosure. All information heretofore furnished by the Company to any Agent or Bank for purposes of or in connection with this Agreement or any transaction contemplated hereby is, and all such information hereafter furnished by the Company to the any Agent or Bank will be, true and accurate in all material respects on the date as of which such information is stated or certified. The Company has disclosed to the Banks in writing any and all facts which materially and adversely affect or could reasonably be expected to materially and adversely affect (to the extent the Company can now reasonably foresee), the business, operations or financial condition of the Company and its Consolidated Subsidiaries, taken as a whole, or the ability of the Company to perform its obligations under this Agreement.

ARTICLE 5
COVENANTS

The Company agrees that, so long as any Bank has any Credit Exposure hereunder:

SECTION 5.01. Information. The Company will deliver to each of the Banks:

(a) as soon as available and in any event within 90 days after the end of each fiscal year of the Company, a consolidated and consolidating balance sheet of the Company and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated and consolidating statements of income and common stockholders' equity and consolidated statement of cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on in a manner acceptable to the Securities and Exchange Commission by Arthur Andersen LLP or other independent public accountants of nationally recognized standing or, in the case of the consolidating financial statements, certified as to fairness of presentation, generally accepted accounting principles and consistency by the Company's chief financial officer or chief accounting officer, except that the consolidating financial statements with respect to the special purpose Subsidiary referred to in the definition of "Receivables Financing" need not be so certified as to generally accepted accounting principles;

(b) as soon as available and in any event within 45 days after the end of each of the first three quarters of each fiscal year of the Company, a consolidated and consolidating balance sheet of the Company and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated and consolidating statements of income and common stockholders' equity and consolidated statement of cash flows for such quarter and for the portion of the Company's fiscal year ended at the end of such quarter, setting forth in each case in comparative form the figures for the corresponding quarter and the corresponding portion of the Company's previous fiscal year, all certified (subject to normal year-end adjustments) as to fairness of presentation, generally accepted accounting principles and consistency by the chief financial officer or the chief accounting officer of the Company, except that the consolidating financial statements with respect to the special purpose Subsidiary referred to in the definition of "Receivables Financing" need not be so certified as to generally accepted accounting principles;

(c) simultaneously with the delivery of each set of financial statements referred to in clauses 5.01(a) and 5.01(b) above, a certificate of the chief financial officer or the chief accounting officer of the Company setting forth (i) in reasonable detail the calculations required to establish whether the Company was in compliance with the requirements of Sections 5.07 to 5.12, inclusive, on the date of such financial statements, (ii) the Leverage Ratio, Fixed Charge Coverage Ratio and Consolidated Net Worth as at the date of such financial statements and (iii) stating whether any Default exists on the date of such certificate and, if any Default then exists, setting forth the details thereof and the action which the Company is taking or proposes to take with respect thereto;

(d) simultaneously with the delivery of each set of financial statements referred to in clause 5.01(a) above, a statement of the firm of independent public accountants which reported on such statements (i) whether anything has come to their attention to cause them to believe that any Default existed on the date of such statements and (ii) confirming the calculations set forth in the officer's certificate delivered simultaneously therewith pursuant to clause 5.01(c) above;

(e) within five days after any officer of the Company obtains knowledge of any Default, if such Default is then continuing, a certificate of the chief financial officer or the chief accounting officer of the Company setting forth the details thereof and the action which the Company is taking or proposes to take with respect thereto;

(f) promptly upon the mailing thereof to the shareholders of the Company generally, copies of all financial statements, reports and proxy statements so mailed;

(g) promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent) and reports on Forms 10-K, 10-Q and 8-K (or their equivalents) which the Company shall have filed with the Securities and Exchange Commission;

(h) if and when any member of the ERISA Group (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives

notice of complete or partial withdrawal liability under Title IV of ERISA or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Plan or Multiemployer Plan or in respect of any Benefit Arrangement or makes any amendment to any Plan or Benefit Arrangement which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a certificate of the chief financial officer or the chief accounting officer of the Company setting forth details as to such occurrence and action, if any, which the Company or applicable member of the ERISA Group is required or proposes to take;

(i) (x) no later than the end of each fiscal year an executive summary report of Johnson & Higgins or any other nationally recognized actuary selected by the Company with the consent of the Required Banks (which consent will not be unreasonably withheld) of the Company's estimated cost of insurance, including self-insurance, for the following fiscal year (provided that the Company will deliver to the Administrative Agent the full report at the same time), and (y) by the end of each fiscal year, a certificate of the chief financial officer of the Company to the effect that, to provide for the insurance cost allocation, the Company has debited its income statement for such fiscal year in accordance with the recommendations set forth in the summary report of Johnson & Higgins (or other actuary referred to above) concerning such fiscal year; and

(j) from time to time such additional information regarding the financial position or business of the Company and its Subsidiaries as the Administrative Agent, at the request of any Bank, may reasonably request.

Information required to be delivered pursuant to clauses 5.01(a), 5.01(b), 5.01(f) or 5.01(g) above shall be deemed to have been delivered on the date on which the Company provides notice to the Banks that such information has been filed with the Securities and Exchange Commission and is available at www.sec.gov. Such notice may be included in a certificate delivered pursuant to clause 5.01(c); provided that the Company shall deliver paper copies of the information referred

to in clauses 5.01(a), 5.01(b), 5.01(f) or 5.01(g) to any Bank which specifically requests such delivery.

SECTION 5.02. Payment of Obligations. (a) The Company will pay and discharge, and will cause each Subsidiary to pay and discharge, at or before maturity, all their respective material obligations and liabilities, including, without limitation, tax liabilities, except where the same may be contested in good faith by appropriate proceedings, and will maintain, and will cause each Subsidiary to maintain, in accordance with generally accepted accounting principles, appropriate reserves for the accrual of any of the same.

(b) The Company shall not permit any Subsidiary to agree to any amendment or modification of any lease which could reasonably be expected to have a Material Adverse Effect.

SECTION 5.03. Maintenance of Property; Insurance. (a) The Company will keep, and will cause each Subsidiary to keep, all property useful and necessary to its business in good working order and condition, ordinary wear and tear excepted.

(b) The Company will maintain, and will cause each Subsidiary to maintain (either in the name of the Company or in such Subsidiary's own name), insurance policies against such risks, in at least such amounts and upon such terms as are set forth in Schedule 2 hereto; provided that the Company shall not be required to maintain insurance specified in the preceding sentence (i) if an independent insurance broker, insurance agent or other insurance representative reasonably satisfactory to the Required Banks shall certify to the Banks that such requirement with respect to such insurance cannot be complied with in a recognized insurance market by reason of the unavailability to companies of established repute engaged in the same or a similar business of insurance with respect to one or more risks so required to be insured against or the amount of insurance so required to be maintained or (ii) in respect of any assets sold by the Company, for events occurring after the sale of such assets. The Company may replace any insurance company named in Schedule 2 hereto with an Acceptable Insurer, and may decrease the amount of insurance not constituting self-insurance carried with the consent of the Required Banks. The Company may self-insure for professional and general liability claims, including, without limitation, workers compensation, so long as the Company shall maintain, and make additions to, reserves not less than such amounts as may be necessary so as to permit the Company to make the statement required in the chief financial officer's certificate pursuant to Section 5.01(i). The Company will furnish to the Banks (i) upon request of any Bank through the Administrative Agent from time to time, full information as to the insurance carried, including the full report referred to in

Section 5.01(i), (ii) together with each officer's certificate delivered pursuant to Section 5.01(c), a description of any material changes in coverage during the preceding fiscal quarter and (iii) forthwith, notice of any cancellation or nonrenewal of coverage by the Company. The Company will self-insure risks in excess of $25,000,000 per occurrence only with the consent of the Required Banks.

SECTION 5.04. Conduct of Business and Maintenance of Existence. Except as permitted by Section 5.11 the Company will continue, and will cause each Subsidiary to continue, to engage in business of the same general type as now conducted by the Company and its Subsidiaries, and will preserve, renew and keep in full force and effect, and, except as permitted by Section 5.11, will cause each Subsidiary to preserve, renew and keep in full force and effect their respective corporate or partnership existence and their respective rights, privileges and franchises necessary or desirable in the normal conduct of business.

SECTION 5.05. Compliance with Laws. The Company will comply, and cause each Subsidiary to comply, in all material respects with all applicable laws, ordinances, rules, regulations, and requirements of governmental authorities (including, without limitation, Environmental Laws and ERISA and the rules and regulations thereunder) except where the necessity of compliance therewith is contested in good faith by appropriate proceedings or where such failures in the aggregate could not reasonably be expected to have a Material Adverse Effect.

SECTION 5.06. Inspection of Property, Books and Records. The Company will keep, and will cause each Subsidiary to keep, proper books of record and account in which full, true and correct entries in conformity with generally accepted accounting principles shall be made of all dealings and transactions in relation to its business and activities; and will permit, and will cause each Subsidiary to permit, representatives of any Bank at such Bank's expense to visit and inspect any of their respective properties, to examine and make abstracts from any of their respective books and records and to discuss their respective affairs, finances and accounts with their respective officers, employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired.

SECTION 5.07. Leverage Ratio. The Leverage Ratio will not, at any time exceed 0.65 to 1.00.

SECTION 5.08. Minimum Consolidated Net Worth. Consolidated Net Worth will at no time be less than the sum of $640,000,000 minus (i) the actual amount up to $50,000,000 of any write down resulting from the application of FAS 142 plus (ii) 50% of Cumulative Positive Net Income. For purposes of this

Section, "Cumulative Positive Net Income" means, as of any date, the sum of Consolidated Net Income for each fiscal quarter ending after the Effective Date and on or prior to such date for which such Consolidated Net Income is a positive amount, disregarding any fiscal quarter for which Consolidated Net Income is a negative amount.

SECTION 5.09. Fixed Charge Coverage. The Fixed Charge Coverage Ratio will not, at the last day of any fiscal quarter, be less than 4.00 to 1.00.

SECTION 5.10. Restricted Payments; Prepayments of Subordinated Debt. The Company will not, and will not permit any of its Subsidiaries to, (i) declare or make any Restricted Payment or (ii) prepay, purchase, redeem or otherwise acquire for value (except in compliance with compulsory amortization or sinking fund requirements (including, without limitation, purchases thereof made to fulfill sinking fund requirements within 12 months of any sinking fund payment date) or any other mandatory prepayment provisions and in compliance with the subordination provisions of such Subordinated Debt), or make any payment of interest or deposit funds with any paying agent therefor more than five business days before the time such payment or deposit is due with respect to, or agree to the modification or amendment of any of the terms of subordination or payment of, or amortization or sinking fund requirements applicable to, any Subordinated Debt; provided that, so long as no Default has occurred and is continuing, the Company may make Restricted Payments so long as the aggregate amount of Restricted Payments made pursuant to this proviso after the Effective Date does not exceed the sum of (i) $50,000,000 plus (ii) 50% of Consolidated Net Income of the Company and its Consolidated Subsidiaries for the period from September 30, 2001 through the end of the Company's then most recent fiscal quarter (treated for this purpose as a single accounting period).

SECTION 5.11. Consolidations, Mergers, Sales of Assets, Dissolutions, Reorganizations, etc. (a) The Company will not, nor will it permit any Subsidiary to, enter into any transaction of merger or consolidation, reorganize, liquidate, dissolve or wind up (or suffer any reorganization, liquidation, dissolution or winding up) or convey, sell, lease or otherwise dispose of, in one or a series of related transactions, substantially all of its property, assets or business, except:

(i) the Company and its Subsidiaries may sell their inventory in the ordinary course of business;

(ii) any Subsidiary of the Company may be voluntarily liquidated, dissolved or wound up or merged into or consolidated with, or may convey all or any part of its property, assets or business to, the Company or any Wholly-Owned Consolidated Subsidiary; provided that

(A) if a Subsidiary of the Company is merged into or consolidated with the Company or any Wholly-Owned Consolidated Subsidiary, the Company or such Wholly-Owned Consolidated Subsidiary, as the case may be, shall be the surviving corporation and (B) no disposition of assets referred to above in this clause (ii) of this Section shall be permitted if, immediately after giving effect thereto, a Default shall have occurred and be continuing; and

(iii) any Subsidiary of the Company may sell substantially all of its accounts receivable to the special purpose Subsidiary referred to in the definition of "Receivables Financing" pursuant to the Receivables Financing and such Subsidiary may obtain financing of up to $150,000,000 by selling or pledging substantially all such accounts receivable to certain investors.

Notwithstanding the foregoing, (X) the Company may permit any Subsidiary to enter into any transaction of merger or consolidation, reorganize, liquidate, dissolve or wind up (or suffer any reorganization, liquidation, dissolution or winding up of such Subsidiary) or convey, sell, lease or otherwise dispose of, in one or a series of related transactions, substantially all of its property, assets or business, and (Y) the Company may trade or exchange (through formation of joint ventures or otherwise), the assets of any Subsidiary for similar assets, provided that the aggregate amount of Net Tangible Assets so disposed of pursuant to clauses (X) and (Y) during the term of this Agreement shall not exceed 15% of Consolidated Net Tangible Assets, determined as of the last day of the fiscal quarter most recently ended on or prior to the date of consummation of the most recent such trade or exchange.

SECTION 5.12. Subsidiary Debt. The Company will not, after the date of this Agreement, permit any of its Subsidiaries to incur, assume or suffer to exist any Debt except (A) Debt existing on the date hereof, (B) Debt owing to the Company or a Wholly-Owned Consolidated Subsidiary, (C) non-recourse financing approved in advance in writing by the Required Banks, (D) Debt secured by Liens permitted pursuant to Section 5.14, (E) Guarantees of letter of credit reimbursement obligations of the Company in an aggregate amount (contingent and non-contingent) at no time exceeding $30,000,000, (F) Loans made to or Reimbursement Obligations incurred by an Eligible Subsidiary hereunder, (G) the French Subsidiary Debt and (H) Debt (other than Debt permitted pursuant to clauses (A), (B), (C), (D), (E), (F) and (G) hereof) not exceeding in aggregate principal amount at any time outstanding for all Subsidiaries 10% of Consolidated Net Worth.

SECTION 5.13. Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Borrower for its general corporate purposes.

None of such proceeds will be used, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any "margin stock" within the meaning of Regulation U.

SECTION 5.14. Negative Pledge. The Company will not, and will not permit any Subsidiary to, create, assume or suffer to exist any Lien on any asset (including the stock and assets of any Subsidiary) now owned or hereafter acquired by it, except:

(a) Liens on cash and cash equivalents securing Derivatives Obligations, provided that the aggregate amount of cash and cash equivalents subject to such Liens may at no time exceed $10,000,000;

(b) Liens existing on the date of this Agreement securing Debt outstanding on the date of this Agreement, in an aggregate principal amount not exceeding $36,000,000;

(c) any Lien existing on any asset of any Person at the time such Person becomes a Subsidiary and not created in contemplation of such event;

(d) any Lien on any asset securing Debt incurred or assumed for the purpose of financing all or any part of the cost of acquiring such asset; provided that such Lien attaches to such asset concurrently with or within 90 days after the acquisition thereof;

(e) any Lien on any asset of any Person existing at the time such Person is merged or consolidated with or into the Company or a Subsidiary and not created in contemplation of such event;

(f) any Lien existing on any asset prior to the acquisition thereof by the Company or a Subsidiary and not created in contemplation of such acquisition;

(g) any Lien arising out of the refinancing, extension, renewal or refunding of any Debt secured by any Lien permitted by any of the foregoing clauses of this Section; provided that such Debt is not increased and is not secured by any additional assets;

(h) Liens arising in the ordinary course of its business which (i) do not secure Debt or Derivatives Obligations, (ii) do not secure obligations exceeding $20,000,000 in aggregate amount and (iii) do not in

the aggregate materially detract from the value of its assets or materially impair the use thereof in the operation of its business;

(i) Liens arising out of the Receivables Financing;

(j) Liens on assets of any French Subsidiary securing the French Subsidiary Debt; and

(k) Liens not otherwise permitted by the foregoing clauses of this Section securing Debt in an aggregate principal amount at any time outstanding not to exceed 5% of Consolidated Net Worth.

ARTICLE 6
DEFAULTS

SECTION 6.01. Events of Default. If one or more of the following events ("Events of Default") shall have occurred and be continuing:

(a) the Company shall fail to pay when due any principal of any Loan or shall fail to pay within 2 Domestic Business Days of the date when due any interest on any Loan, any fees or any other amount payable hereunder;

(b) the Company or any of its Subsidiaries shall fail to observe or perform any covenant contained in Sections 5.07 to 5.14, inclusive;

(c) the Company or any of its Subsidiaries shall fail to observe or perform any covenant or agreement contained in this Agreement (other than those covered by clause 6.01(a) or 6.01(b) above) for 30 days after notice thereof has been given to the Company by the Administrative Agent at the request of any Bank;

(d) any representation, warranty, certification or statement made by the Company or any of its Subsidiaries in the Loan Documents or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made (or deemed made);

(e) the Company or any Subsidiary shall fail to make any payment in respect of any Material Financial Obligations when due or within any applicable grace period;

(f) any event or condition shall occur which results in the acceleration of the maturity of any Material Debt or enables (or, with the giving of notice or lapse of time or both, would enable) the holder of such Material Debt or any Person acting on such holder's behalf to accelerate the maturity thereof;

(g) the Company or any of its Subsidiaries shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any corporate action to authorize any of the foregoing;

(h) an involuntary case or other proceeding shall be commenced against the Company or any of its Subsidiaries seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Company or any Subsidiary under the federal bankruptcy laws as now or hereafter in effect;

(i) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of $5,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan (other than pursuant to a standard termination under Section 4041(b) of ERISA) shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or a default, within the

meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could cause one or more members of the ERISA Group to incur a current payment obligation in excess of $5,000,000;

(j) a judgment or order for the payment of money in excess of $5,000,000 shall be rendered against the Company or any Subsidiary and such judgment or order shall continue unsatisfied and unstayed for a period of 30 days;

(k) any person or group of persons (within the meaning of Section 13 or 14 of the Securities Exchange Act of 1934, as amended) (except a person that has or a group of persons each of which has as of the date hereof more than 10% of such voting common stock) shall have acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated by the Securities and Exchange Commission under said Act) of 25% or more in voting power of the common stock of the Company; or, during any period of 24 consecutive calendar months, individuals who were either (i) directors of the Company on the first day of such period or (ii) elected to fill vacancies caused by the ordinary course resignation or retirement of any other director and whose nomination or election was approved by a vote of at least a majority of directors then still in office who were directors of the Company on the first day of such period, shall cease to constitute a majority of the board of directors of the Company; or

(l) at any time any obligation is owed to the Banks by any Eligible Subsidiary, the provisions of Article 10 shall cease to constitute valid, binding and enforceable obligations of the Company for any reason, or the Company or any Eligible Subsidiary shall have so asserted in writing;

then, and in every such event, the Administrative Agent shall (i) if requested by the Required Banks, by notice to the Company terminate the Commitments and they shall thereupon terminate, and/or (ii) if requested by the Required Banks, by notice to the Company declare the Notes (together with accrued interest thereon) to be, and the Notes shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Company; provided that in the case of any of the Events of Default specified in clause 6.01(g) or 6.01(h) above with respect to the Company, without any notice to the Company or any other act by the Administrative Agent or the Banks, the Commitments shall thereupon terminate and the Notes (together with accrued interest thereon) shall become immediately due and payable without

presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Company.

SECTION 6.02. Notice of Default. The Administrative Agent shall give notice to the Company under Section 6.01(c) promptly upon being requested to do so by any Bank and shall thereupon notify all the Banks thereof.

SECTION 6.03. Cash Cover. The Company agrees, in addition to the provisions of Section 6.01 hereof, that upon the occurrence and during the continuance of any Event of Default, it shall, if requested by the Administrative Agent upon the instruction of the Required Banks, pay to the Administrative Agent an amount in immediately available funds (which funds shall be held as collateral pursuant to arrangements satisfactory to the Administrative Agent) equal to the aggregate amount available for drawing under all Letters of Credit then outstanding at such time, provided that, upon the occurrence of any Event of Default specified in Section 6.01(g) or 6.01(h) with respect to the Company, the Company shall pay such amount forthwith without any notice or demand or any other act by the Administrative Agent or the Banks.

ARTICLE 7
THE AGENTS

SECTION 7.01. Appointment and Authorization. Each Bank irrevocably appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Administrative Agent by the terms thereof, together with all such powers as are reasonably incidental thereto.

SECTION 7.02. Administrative Agent and Affiliates. JPMorgan Chase Bank shall have the same rights and powers under the Loan Documents as any other Bank and may exercise or refrain from exercising the same as though it were not the Administrative Agent, and JPMorgan Chase Bank and its affiliates may accept deposits from, lend money to, and generally engage in any kind of business with the Company or any Subsidiary or affiliate of the Company as if it were not the Administrative Agent hereunder.

SECTION 7.03. Action by Administrative Agent. The obligations of the Administrative Agent under the Loan Documents are only those expressly set forth therein. Without limiting the generality of the foregoing, the Administrative Agent shall not be required to take any action with respect to any Default, except as expressly provided in Article 6.

SECTION 7.04. Consultation with Experts. The Administrative Agent may consult with legal counsel (who may be counsel for a Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts.

SECTION 7.05. Liability of Administrative Agent. Neither the Administrative Agent nor any of its affiliates nor any of their respective directors, officers, agents or employees shall be liable for any action taken or not taken by it in connection with the Loan Documents (i) with the consent or at the request of the Required Banks or (ii) in the absence of its own gross negligence or willful misconduct. Neither the Administrative Agent nor any of its affiliates nor any of their respective directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into or verify (i) any statement, warranty or representation made in connection with the Loan Documents or any borrowing hereunder; (ii) the performance or observance of any of the covenants or agreements of any Borrower; (iii) the satisfaction of any condition specified in Article 3, except receipt of items required to be delivered to the Administrative Agent; or (iv) the validity, effectiveness or genuineness of the Loan Documents or any other instrument or writing furnished in connection therewith. The Administrative Agent shall not incur any liability by acting in reliance upon any notice, consent, certificate, statement, or other writing (which may be a bank wire, telex, facsimile transmission or similar writing) believed by it to be genuine or to be signed by the proper party or parties. Without limiting the generality of the foregoing, the use of the term "agent" in this Agreement with reference to the Administrative Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such term is used merely as a matter of market custom and is intended to create or reflect only an administrative relationship between independent contracting parties.

SECTION 7.06. Indemnification. Each Bank shall, ratably in accordance with its Commitment, indemnify the Administrative Agent, its affiliates and their respective directors, officers, agents and employees (to the extent not reimbursed by the Borrowers) against any cost, expense (including counsel fees and disbursements), claim, demand, action, loss or liability (except such as result from such indemnitees' gross negligence or willful misconduct) that such indemnitees may suffer or incur in connection with the Loan Documents or any action taken or omitted by such indemnitees thereunder.

SECTION 7.07. Credit Decision. Each Bank acknowledges that it has, independently and without reliance upon any Agent or any other Bank, and on the basis of such documents and information as it has deemed appropriate, made its

own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon any Agent or any other Bank, and on the basis of such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking any action under the Loan Documents.

SECTION 7.08. Successor Administrative Agent. The Administrative Agent may resign at any time by giving notice thereof to the Banks and the Company. Upon any such resignation, the Required Banks shall have the right to appoint a successor Administrative Agent with (so long as no Default shall have occurred and be continuing) the consent of the Company, which consent shall not be unreasonably withheld. If no successor Administrative Agent shall have been so appointed by the Required Banks with the Company's consent, and shall have accepted such appointment, within 60 days after the retiring Administrative Agent gives notice of resignation, then the retiring Administrative Agent may, on behalf of the Banks, appoint a successor Administrative Agent, which shall be a commercial bank organized or licensed under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least $50,000,000. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent.

SECTION 7.09. Administrative Agent's Fee; Arranger Fee. The Company shall pay to the Administrative Agent for its own account and to J.P. Morgan Securities Inc. ("JPMSI"), in its capacity as arranger, for its own account, fees in the amounts and at the times previously agreed upon between the Company and the Administrative Agent and JPMSI, respectively.

SECTION 7.10. Other Agents. Nothing in this Agreement shall impose upon any Agent other than the Administrative Agent, in its capacity as such an Agent, any obligation or liability whatsoever.

ARTICLE 8
CHANGE IN CIRCUMSTANCES

SECTION 8.01. Basis for Determining Interest Rate Inadequate or Unfair. If on or prior to the first day of any Interest Period for any CD Loan, Euro-Currency Loan or Competitive Bid LIBOR Loan:

(a) the Administrative Agent is advised by the Reference Banks that deposits in dollars (in the applicable amounts) are not being offered to the Reference Banks in the relevant market for such Interest Period, or

(b) in the case of CD Loans or Euro-Currency Loans, Banks having 50% or more of the aggregate amount of the Commitments advise the Administrative Agent that the Adjusted CD Rate or the London Interbank Offered Rate, as the case may be, as determined by the Administrative Agent will not adequately and fairly reflect the cost to such Banks of funding their CD Loans or Euro-Currency Loans, as the case may be, for such Interest Period,

the Administrative Agent shall forthwith give notice thereof to the Borrower and the Banks, whereupon until the Administrative Agent notifies the Borrower that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Banks to make CD Loans or Euro-Currency Loans (in the affected currency), as the case may be, or to continue or convert outstanding Loans as or into CD Loans or Euro-Currency Loans (in the affected currency), as the case may be, shall be suspended and (ii) each outstanding CD Loan or Euro-Currency Loan (in the affected currency), as the case may be, shall be prepaid (or, in the case of a Dollar-Denominated Loan, converted into a Base Rate Loan) on the last day of the then current Interest Period applicable thereto. Unless the Borrower notifies the Administrative Agent at least two Domestic Business Days before the date of any Fixed Rate Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, (i) if such Fixed Rate Borrowing is a Syndicated Borrowing, such Borrowing shall instead be made as a Base Rate Borrowing in an equal Dollar Amount and (ii) if such Fixed Rate Borrowing is a Competitive Bid LIBOR Borrowing, then the Competitive Bid LIBOR Loans comprising such Borrowing shall bear interest for each day from and including the first day to but excluding the last day of the Interest Period applicable thereto at the Base Rate for such day.

SECTION 8.02. Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency

charged with the interpretation or administration thereof, or compliance by any Bank (or its Euro-Currency Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Bank (or its Euro-Currency Lending Office) to make, maintain or fund any of its Euro-Currency Loans in any currency and such Bank shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Banks and the Borrower, whereupon until such Bank notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Bank to make Euro-Currency Loans in such currency, or to convert outstanding Loans into Euro-Currency Loans in such currency, shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Bank shall designate a different Euro-Currency Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. If such notice is given, each Euro-Currency Loan in such currency of such Bank then outstanding shall be converted to a Base Rate Loan (in the case of an Alternative Currency Loan, in a principal amount determined on the basis of the Spot Rate on the date of conversion) either (a) on the last day of the then current Interest Period applicable to such Euro-Dollar Loan if such Bank may lawfully continue to maintain and fund such Loan to such day or (b) immediately if such Bank shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

SECTION 8.03. Increased Cost and Reduced Return. (a) If on or after (x) the date hereof, in the case of any Committed Loan or Letter of Credit or any obligation to make Committed Loans or issue or participate in any Letter of Credit or (y) the date of any related Competitive Bid Quote, in the case of any Competitive Bid Loan, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System, but excluding (i) with respect to any CD Loan any such requirement included in an applicable Domestic Reserve Percentage and (ii) with respect to any Euro-Currency Loan any such requirement included in an applicable Euro-Currency Reserve Percentage), special deposit, insurance assessment (excluding, with respect to any CD Loan, any such requirement reflected in an applicable Assessment Rate) or similar requirement against assets of, deposits with or for the account of, or credit extended by, any

Bank (or its Applicable Lending Office) or shall impose on any Bank (or its Applicable Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its Fixed Rate Loans, its Note or its obligation to make Fixed Rate Loans or its obligations hereunder in respect of Letters of Credit and the result of any of the foregoing is to increase the cost to such Bank (or its Applicable Lending Office) of making or maintaining any Fixed Rate Loan or of issuing or participating in any Letter of Credit, or to reduce the amount of any sum received or receivable by such Bank (or its Applicable Lending Office) under this Agreement or under its Note with respect thereto, by an amount deemed by such Bank to be material, then, within 15 days after demand by such Bank (with a copy to the Administrative Agent), the Company shall pay, or shall cause another Borrower to pay, such Bank such additional amount or amounts as will compensate such Bank for such increased cost or reduction.

(b) If any Bank shall have determined that, after the date hereof, the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Bank (or its Parent) as a consequence of such Bank's obligations hereunder to a level below that which such Bank (or its Parent) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time, within 15 days after demand by such Bank (with a copy to the Administrative Agent), the Company shall pay to such Bank such additional amount or amounts as will compensate such Bank (or its Parent) for such reduction.

(c) Each Bank will promptly notify the Company and the Administrative Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Bank to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. A certificate of any Bank claiming compensation under this Section and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Bank may use any reasonable averaging and attribution methods.

SECTION 8.04. Taxes. (a) For purposes of this Section 8.04, the following terms have the following meanings:

"Taxes" means any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings with respect to any payment by any Borrower pursuant to any Loan Document, and all liabilities with respect thereto, excluding (i) in the case of each Bank and the Administrative Agent, taxes imposed on its income, net worth or gross receipts and franchise or similar taxes imposed on it, by a jurisdiction under the laws of which such Bank or the Administrative Agent (as the case may be) is organized or in which its principal executive office is located or, in the case of each Bank, in which its Applicable Lending Office is located and (ii) in the case of each Bank, any United States withholding tax imposed on such payments but only to the extent that such Bank is subject to United States withholding tax at the time such Bank first becomes a party to this Agreement.

"Other Taxes" means any present or future stamp or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement or under any Note or from the execution or delivery of, or otherwise with respect to, any Loan Document.

(b) Any and all payments by any Borrower to or for the account of any Bank or the Administrative Agent hereunder or under any Note shall be made without deduction for any Taxes or Other Taxes; provided that, if a Borrower shall be required by law to deduct any Taxes or Other Taxes from any such payments, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 8.04) such Bank or the Administrative Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Borrower shall make such deductions, (iii) such Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) such Borrower shall furnish to the Administrative Agent, at its address referred to in Section 11.01, the original or a certified copy of a receipt evidencing payment thereof.

(c) The Company agrees to indemnify each Bank and the Administrative Agent for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 8.04) paid by such Bank or the Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be paid

within 15 days after such Bank or the Administrative Agent (as the case may be) makes demand therefor.

(d) Each Bank organized under the laws of a jurisdiction outside the United States, on or prior to the date of its execution and delivery of this Agreement in the case of each Bank listed on the signature pages hereof and on or prior to the date on which it becomes a Bank in the case of each other Bank, and from time to time thereafter if requested in writing by the Company (but only so long as such Bank remains lawfully able to do so), shall provide the Company with Internal Revenue Service form W-8BEN or W-8ECI, as appropriate, or any successor form prescribed by the Internal Revenue Service, certifying that such Bank is entitled to benefits under an income tax treaty to which the United States is a party which exempts the Bank from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Bank or certifying that the income receivable pursuant to this Agreement is effectively connected with the conduct of a trade or business in the United States.

(e) For any period with respect to which a Bank has failed to provide the Company with the appropriate form pursuant to Section 8.04(d) (unless such failure is due to a change in treaty, law or regulation occurring subsequent to the date on which such form originally was required to be provided), such Bank shall not be entitled to indemnification under Section 8.04(b) or 8.04(c) with respect to Taxes imposed by the United States; provided that if a Bank, which is otherwise exempt from or subject to a reduced rate of withholding tax, becomes subject to Taxes because of its failure to deliver a form required hereunder, the Company shall take such steps as such Bank shall reasonably request to assist such Bank to recover such Taxes.

(f) If any Borrower is required to pay additional amounts to or for the account of any Bank pursuant to this Section 8.04, then such Bank will change the jurisdiction of its Applicable Lending Office if, in the judgment of such Bank, such change (i) will eliminate or reduce any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous to such Bank.

SECTION 8.05. Foreign Subsidiary Costs. (a) If the cost to any Bank of making or maintaining any Loan to or of issuing or maintaining any Letter of Credit for the account of an Eligible Subsidiary is increased, or the amount of any sum received or receivable by any Bank (or its Applicable Lending Office) is reduced by an amount deemed by such Bank to be material, by reason of the fact that such Eligible Subsidiary is incorporated in, or conducts business in, a jurisdiction outside the United States, the Company shall indemnify such Bank for such increased cost or reduction within 15 days after demand by such Bank (with a copy to the Administrative Agent). A certificate of such Bank claiming

compensation under this subsection 8.05 and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error.

(b) Each Bank will promptly notify the Company and the Administrative Agent of any event of which it has knowledge that will entitle such Bank to additional interest or payments pursuant to subsection 8.05 and will designate a different Applicable Lending Office, if, in the judgment of such Bank, such designation will avoid the need for, or reduce the amount of, such compensation and will not be otherwise disadvantageous to such Bank.

SECTION 8.06. Base Rate Loans Substituted for Affected Fixed Rate Loans. If (i) the obligation of any Bank to make, or convert outstanding Loans to, Euro-Currency Loans in any currency has been suspended pursuant to Section 8.02 or (ii) any Bank has demanded compensation under Section 8.03, 8.04 or 8.05 with respect to its CD Loans or Euro-Currency Loans in any currency and the Borrower shall, by at least five Euro-Dollar Business Days' prior notice to such Bank through the Administrative Agent, have elected that the provisions of this Section shall apply to such Bank, then, unless and until such Bank notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer exist:

(a) all Loans which would otherwise be made by such Bank as (or continued as or converted into) CD Loans or Euro-Currency Loans (in the affected currency), as the case may be, shall instead be Base Rate Loans (in the case of Alternative Currency Loans, in the same Dollar Amount as the Euro-Currency Loan that such Lender would otherwise have made in the Alternative Currency) on which interest and principal shall be payable contemporaneously with the related Fixed Rate Loans of the other Banks; and

(b) after each of its CD Loans or Euro-Currency Loans (in the affected currency), as the case may be, has been repaid (or converted to a Base Rate Loan), all payments of principal which would otherwise be applied to repay such Fixed Rate Loans shall be applied to repay its Base Rate Loans instead.

If such Bank notifies the Borrower that the circumstances giving rise to such notice no longer apply, the principal amount of each such Base Rate Loan shall be converted into a CD Loan or Euro-Currency Loan, as the case may be, on the first day of the next succeeding Interest Period applicable to the related CD Loans or Euro-Currency Loans of the other Banks. If such Loan is converted into an Alternative Currency Loan, such Bank, the Agent and the Borrower shall make

such arrangements as shall be required (including increasing or decreasing the amount of such Alternative Currency Loan) so that such Alternative Currency Loan shall be in the same amount as it would have been if the provisions of this Section had never applied thereto.

SECTION 8.07. Substitution of Bank. If (i) the obligation of any Bank to make Euro-Currency Loans or to convert or continue outstanding Loans into Euro-Currency Loans in any currency shall be suspended pursuant to Section 8.02 or (ii) any Bank shall demand compensation pursuant to Section 8.03, 8.04 or 8.05, the Borrower shall have the right, with the assistance of the Administrative Agent and the Issuing Banks, to seek a mutually satisfactory bank or banks (which may be one or more of the Banks) to purchase the outstanding Loans of such Bank and to assume the Commitment and Letter of Credit Liabilities of such Bank.

ARTICLE 9
REPRESENTATIONS AND WARRANTIES OF ELIGIBLE SUBSIDIARIES

Each Eligible Subsidiary shall be deemed by the execution and delivery of its Election to Participate to have represented and warranted as of the date thereof that:

SECTION 9.01. Corporate Existence and Power. It is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation and is a Majority-Owned Consolidated Subsidiary.

SECTION 9.02. Corporate Governmental Authorization; No Contravention. The execution and delivery by it of its Election to Participate and its Notes, and the performance by it of this Agreement and its Notes, are within its corporate powers, have been duly authorized by all necessary corporate action, require no action by or in respect of, or filing with, any governmental body, agency or official and do not contravene, or constitute a default under, any provision of applicable law or regulation or of its certificate or incorporation or by-laws or of any agreement, judgment, injunction, order, decree or other instrument binding upon the Company or such Eligible Subsidiary or result in the creation or imposition of any Lien on any asset of the Company or any of its Subsidiaries.

SECTION 9.03. Binding Effect. This Agreement constitutes a valid and binding agreement of such Eligible Subsidiary and its Notes, when and if executed and delivered in accordance with this Agreement, will constitute valid and binding obligations of such Eligible Subsidiary, in each case enforceable in accordance

with its terms except as the same may be limited by bankruptcy, insolvency or similar laws affecting creditors' rights generally and by general principles of equity.

SECTION 9.04. Taxes. Except as disclosed in such Election to Participate, there is no income, stamp or other tax of any country, or any taxing authority thereof or therein, imposed by or in the nature of withholding or otherwise, which is imposed on any payment to be made by such Eligible Subsidiary pursuant hereto or on its Notes, or is imposed on or by virtue of the execution, delivery or enforcement of its Election to Participate or of its Notes.

ARTICLE 10
GUARANTY

SECTION 10.01. The Guaranty. The Company hereby unconditionally and absolutely guarantees the full and punctual payment (whether at stated maturity, upon acceleration or otherwise) of the principal of and interest on each Loan made to and each Reimbursement Obligation incurred by each Eligible Subsidiary pursuant to this Agreement, and the full and punctual payment of all other amounts payable by each Eligible Subsidiary under this Agreement. Upon failure by any Eligible Subsidiary to pay punctually any such amount, the Company shall forthwith on demand pay the amount not so paid at the place and in the manner specified in this Agreement.

SECTION 10.02. Guaranty Unconditional. The obligations of the Company hereunder shall be unconditional and absolute and, without limiting the generality of the foregoing, shall not be released, discharged or otherwise affected by:

(a) any extension, renewal, settlement, compromise, waiver or release in respect of any obligation of any Eligible Subsidiary under this Agreement or any Note, by operation of law or otherwise;

(b) any modification or amendment of or supplement to this Agreement or any Note;

(c) any release, impairment, non-perfection or invalidity of any direct or indirect security for any obligation of any Eligible Subsidiary under this Agreement or any Note;

(d) any change in the corporate existence, structure or ownership of any Eligible Subsidiary, or any insolvency, bankruptcy, reorganization or other similar proceeding affecting any Eligible Subsidiary or its assets

or any resulting release or discharge of any obligation of any Eligible Subsidiary contained in this Agreement or any Note;

(e) the existence of any claim, set-off or other rights which the Company may have at any time against any Eligible Subsidiary, the Administrative Agent, any Bank or any other Person, whether in connection herewith or any unrelated transactions; provided that nothing herein shall prevent the assertion of any such claim by separate suit or compulsory counterclaim;

(f) any invalidity or unenforceability relating to or against any Eligible Subsidiary for any reason of this Agreement or any Note, or any provision of applicable law or regulation purporting to prohibit the payment by any Eligible Subsidiary of the principal of or interest on any Note or any other amount payable by it under this Agreement; or

(g) any other act or omission to act or delay of any kind by any Eligible Subsidiary, the Administrative Agent, any Lender or any other Person or any other circumstance whatsoever which might, but for the provisions of this paragraph, constitute a legal or equitable discharge of the Company's obligations hereunder.

SECTION 10.03. Discharge Only upon Payment in Full; Reinstatement In Certain Circumstances. The Company's obligations hereunder shall remain in full force and effect until the Commitments shall have terminated and the principal of and interest on the Loans, the Reimbursement Obligations and all other amounts payable by the Company and each Eligible Subsidiary under this Agreement shall have been paid in full. If at any time any payment of the principal of or interest on any Loan or any other amount payable by any Eligible Subsidiary under this Agreement is rescinded or must be otherwise restored or returned upon the insolvency, bankruptcy or reorganization of any Eligible Subsidiary or otherwise, the Company's obligations hereunder with respect to such payment shall be reinstated at such time as though such payment had been due but not made at such time.

SECTION 10.04. Waiver by the Company. The Company irrevocably waives acceptance hereof, presentment, demand, protest and any notice not provided for herein, as well as any requirement that at any time any action be taken by any Person against any Eligible Subsidiary or any other Person.

SECTION 10.05. Subrogation. Upon making any payment with respect to any Eligible Subsidiary hereunder, the Company shall be subrogated to the rights of the payee against such Eligible Subsidiary with respect to such payment;

provided that the Company shall not enforce any payment by way of subrogation
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unless all amounts of principal of and interest on the Loans to such Eligible Subsidiary and all other amounts payable by such Eligible Subsidiary under this Agreement have been paid in full.

SECTION 10.06. Stay of Acceleration. If acceleration of the time for payment of any amount payable by any Eligible Subsidiary under this Agreement or its Notes is stayed upon insolvency, bankruptcy or reorganization of such Eligible Subsidiary, all such amounts otherwise subject to acceleration under the terms of this Agreement shall nonetheless be payable by the Company hereunder forthwith on demand by the Administrative Agent made at the request of the Required Banks.

ARTICLE 11
MISCELLANEOUS

SECTION 11.01. Notices. All notices, requests and other communications to any party hereunder shall be in writing (including bank wire, telex, facsimile transmission or similar writing) and shall be given to such party: (w) in the case of the Company or the Administrative Agent, at its address, facsimile number or telex number set forth on the signature pages hereof, (x) in the case of any Bank, at its address, facsimile number or telex number set forth in its Administrative Questionnaire, (y) in the case of any Eligible Subsidiary, to it in care of the Company or (z) in the case of any party, such other address, facsimile number or telex number as such party may hereafter specify for the purpose by notice to the Administrative Agent and the Company. Each such notice, request or other communication shall be effective (i) if given by telex, when such telex is transmitted to the telex number specified in this Section and the appropriate answerback is received, (ii) if given by facsimile transmission, when transmitted to the facsimile number specified in this Section and confirmation of receipt is received, (iii) if given by mail, 72 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid or (iv) if given by any other means, when delivered at the address specified in this Section; provided that notices to the Administrative Agent or any Issuing Bank under Article 2 or Article 8 shall not be effective until received.

SECTION 11.02. No Waivers. No failure or delay by the Administrative Agent or any Bank in exercising any right, power or privilege under the Loan Documents shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of

any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

SECTION 11.03. Expenses; Indemnification. (a) The Company shall pay (i) all out-of-pocket expenses of the Administrative Agent, including fees and disbursements of special counsel for the Administrative Agent, in connection with the preparation of the Loan Documents, any waiver or consent thereunder or any amendment thereof or any Default or alleged Default hereunder and (ii) if an Event of Default occurs, all out-of-pocket expenses incurred by the Administrative Agent and each Bank, including fees and disbursements of counsel, in connection with such Event of Default and collection, bankruptcy, insolvency and other enforcement proceedings resulting therefrom.

(b) The Company agrees to indemnify the each Agent and Bank, their respective affiliates and the respective directors, officers, agents and employees of the foregoing (each an "Indemnitee") and hold each Indemnitee harmless from and against any and all liabilities, losses, damages, costs and expenses of any kind, including, without limitation, the reasonable fees and disbursements of counsel, which may be incurred by such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened relating to or arising out of this Agreement or any actual or proposed use of proceeds of Loans hereunder; provided that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee's own gross negligence or willful misconduct as determined by a court of competent jurisdiction.

SECTION 11.04. Sharing of Set-Offs. Subject to Section 2.18, each Bank agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount then due with respect to the Loans and Letter of Credit Liabilities held by it which is greater than the proportion received by any other Bank in respect of the aggregate amount then due and interest due with respect to the Loans and Letter of Credit Liabilities held by such other Bank, the Bank receiving such proportionately greater payment shall purchase such participations in the Loans and Letter of Credit Liabilities held by the other Banks, and such other adjustments shall be made, as may be required so that all such payments then due with respect to the Loans and Letter of Credit Liabilities held by the Banks shall be shared by the Banks pro rata; provided that nothing in this Section shall impair the right of any Bank to exercise any right of set-off or counterclaim it may have and to apply the amount subject to such exercise to the payment of indebtedness of the Borrowers other than indebtedness under the Loan Documents. Each Borrower agrees, to the fullest extent it may effectively do so under applicable law, that any holder of a participation in the Loans and Letter of Credit Liabilities, whether or not acquired pursuant to the

foregoing arrangements, may exercise rights of set-off or counterclaim and other rights with respect to such participation as fully as if such holder of a participation were a direct creditor of such Borrower in the amount of such participation.

SECTION 11.05. Amendments and Waivers. Any provision of this Agreement or the Notes may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Company and the Required Banks (and, if the rights or duties of any Agent, the Swingline Bank or any Issuing Bank are affected thereby, by such Person); provided that no such amendment or waiver shall:

(a) unless signed by all the Banks, (i) increase or decrease the Commitment of any Bank (except (x) as contemplated by Section 2.19 or (y) for a ratable decrease in the Commitments of all Banks) or subject any Bank to any additional obligation, (ii) reduce the principal of or rate of interest on any Loan or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder, (iii) postpone the date fixed for any payment of principal of or interest on any Loan or for reimbursement in respect of any Letter of Credit or interest thereon or any fees hereunder or for termination of any Commitment, (iv) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Notes and Letter of Credit Liabilities, or the number of Banks, which shall be required for the Banks or any of them to take any action under this Section or any other provision of this Agreement, (v) change this Section 11.05, (vi) release the Company from any obligation under Article 10 or (vii) permit the subordination of any payment or right of payment due to the Banks under the Loan Documents;

(b) unless signed by a Designated Lender or its Designating Bank, (i) subject such Designated Lender to any additional obligation, (ii) affect its rights hereunder (unless the rights of all the Banks hereunder are similarly affected) or (iii) change this clause 11.05(b); or

(c) unless signed by an Eligible Subsidiary, (w) subject such Eligible Subsidiary to any additional obligation, (x) increase the principal of or rate of interest on any outstanding Loan of such Eligible Subsidiary, (y) accelerate the stated maturity of any outstanding Loan of such Eligible Subsidiary or (z) change this proviso.

SECTION 11.06. Successors and Assigns. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that no Borrower may assign or

otherwise transfer any of its rights under this Agreement without the prior written consent of all Banks.

(b) Any Bank may at any time grant to one or more banks or other institutions (each a "Participant") participating interests in its Commitment and/or any or all of its Loans and Letter of Credit Liabilities. In the event of any such grant by a Bank of a participating interest to a Participant, whether or not upon notice to any Borrower and the Administrative Agent, such Bank shall remain responsible for the performance of its obligations hereunder, and the Borrower, the Issuing Banks and the Administrative Agent shall continue to deal solely and directly with such Bank in connection with such Bank's rights and/or obligations under the Loan Documents. Any agreement pursuant to which any Bank may grant such a participating interest shall provide that such Bank shall retain the sole right and responsibility to enforce the obligations of the Borrowers under the Loan Documents including, without limitation, the right to approve any amendment, modification or waiver of any provision thereof; provided that such participation agreement may provide that such Bank will not agree to any modification, amendment or waiver of this Agreement described in clause (i), (ii) or (iii) of Section 11.05 without the consent of the Participant. The Borrowers agree that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article 8 with respect to its participating interest. An assignment or other transfer which is not permitted by subsection 11.06(c) or 11.06(d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection 11.06(b).

(c) Any Bank may at any time assign to one or more Eligible Assignees all, or a proportionate part (equivalent to an initial Commitment of not less than $5,000,000) of all, of its rights and obligations under the Loan Documents, and such Eligible Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit J hereto. Upon the consummation of any assignment pursuant to this subsection 11.06(c), the transferor Bank, the Administrative Agent and the Borrowers shall make appropriate arrangements so that, if required, new Notes are issued to the Eligible Assignee. In connection with any such assignment, the transferor Bank shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of $3,500. If the Eligible Assignee is not incorporated under the laws of the United States of America or a state thereof, it shall, prior to the first date on which interest or fees are payable hereunder for its account, deliver to the Company and the Administrative Agent certification as to exemption from deduction or withholding of any United States federal income taxes in accordance with Section 8.04.

(d) Any Bank may at any time assign all or any portion of its rights under the Loan Documents to a Federal Reserve Bank. No such assignment shall release the transferor Bank from its obligations hereunder.

(e) No Eligible Assignee, Participant or other transferee of any Bank's rights shall be entitled to receive any greater payment under Section 8.03 or 8.04 than such Bank would have been entitled to receive with respect to the rights transferred, unless such transfer is made with the Company's prior written consent or by reason of the provisions of Section 8.02, 8.03 or 8.04 requiring such Bank to designate a different Applicable Lending Office under certain circumstances or at a time when the circumstances giving rise to such greater payment did not exist.

SECTION 11.07. Designated Lenders. (a) Subject to the provisions of this subsection (a), any Bank may at any time designate an Approved Fund to provide all or a portion of the Loans to be made by such Lender pursuant to this Agreement; provided that such designation shall not be effective unless the Company and the Administrative Agent consent thereto (which consents shall not be unreasonably withheld or delayed). When a Lender and its Approved Fund shall have signed an agreement substantially in the form of Exhibit K hereto (a "Designation Agreement") and the Company and the Administrative Agent shall have signed their respective consents thereto, such Approved Fund shall become a Designated Lender for purposes of this Agreement. The Designating Bank shall thereafter have the right to permit such Designated Lender to provide all or a portion of the Loans to be made by such Designating Bank pursuant to Section 2.01 or 2.03, and the making of such Loans or portion thereof shall satisfy the obligation of the Designating Bank to the same extent, and as if, such Loans or portion thereof were made by the Designating Bank. As to any Loans or portion thereof made by it, each Designated Lender shall have all the rights that a Bank making such Loans or portion thereof would have had under this Agreement and otherwise; provided that (x) its voting rights under this Agreement shall be exercised solely by its Designating Bank and (y) its Designating Bank shall remain solely responsible to the other parties hereto for the performance of such Designated Lender's obligations under this Agreement, including its obligations in respect of the Loans or portion thereof made by it or to be made by it. No additional Note shall be required to evidence the Loans or portion thereof made by a Designated Lender; and the Designating Bank shall be deemed to hold its Note as agent for its Designated Lender to the extent of the Loans or portion thereof funded by such Designated Lender. Each Designating Bank shall act as administrative agent for its Designated Lender and give and receive notices and other communications on its behalf. Any payments for the account of any Designated Lender shall be paid to its Designating Bank as administrative agent for such Designated Lender and neither the Borrowers nor the Administrative Agent shall be responsible for any Designating Bank's application of such

payments. In addition, any Designated Lender may, with notice to (but without the prior written consent of) the Company and the Administrative Agent, (i) assign all or portions of its interest in any Loans to its Designating Bank or to any financial institutions consented to by the Company and the Administrative Agent that provide liquidity and/or credit facilities to or for the account of such Designated Lender to support the funding of Loans or portions thereof made by it and (ii) disclose on a confidential basis any non-public information relating to its Loans or portions thereof to any rating agency, commercial paper dealer or provider of any guarantee, surety, credit or liquidity enhancement to such Designated Lender.

(b) Each party to this Agreement agrees that it will not institute against, or join any other person in instituting against, any Designated Lender any bankruptcy, insolvency, reorganization or other similar proceeding under any federal or state bankruptcy or similar law, for one year and a day after all outstanding senior indebtedness of such Designated Lender is paid in full. The Designating Bank for each Designated Lender agrees to indemnify, save, and hold harmless each other party hereto for any loss, cost, damage and expense arising out of its inability to institute any such proceeding against such Designated Lender. This subsection (b) shall survive the termination of this Agreement.

SECTION 11.08. Collateral. Each of the Banks represents to each Agent and each of the other Banks that it in good faith is not relying upon any "margin stock" (as defined in Regulation U) as collateral in the extension or maintenance of the credit provided for in this Agreement.

SECTION 11.09. Governing Law; Submission to Jurisdiction. This Agreement and each Note shall be governed by and construed in accordance with the laws of the State of New York. Each Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. Each Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

SECTION 11.10. Counterparts; Integration. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement constitutes the entire agreement and understanding among the

parties hereto and supersedes any and all prior agreements and understandings, oral or written, relating to the subject matter hereof.

SECTION 11.11. WAIVER OF JURY TRIAL. EACH OF THE BORROWERS, THE AGENTS, THE BANKS AND THE ISSUING BANKS HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

SECTION 11.12. Judgment Currency. If, under any applicable law and whether pursuant to a judgment being made or registered against any Borrower or for any other reason, any payment under or in connection with this Agreement, is made or satisfied in a currency (the "Other Currency") other than that in which the relevant payment is due (the "Required Currency") then, to the extent that the payment (when converted into the Required Currency at the rate of exchange on the date of payment or, if it is not practicable for the party entitled thereto (the "Payee") to purchase the Required Currency with the other Currency on the date of payment, at the rate of exchange as soon thereafter as it is practicable for it to do so) actually received by the Payee falls short of the amount due under the terms of this Agreement, such Borrower shall, to the extent permitted by law, as a separate and independent obligation, indemnify and hold harmless the Payee against the amount of such short-fall. For the purpose of this Section, "rate of exchange" means the rate at which the Payee is able on the relevant date to purchase the Required Currency with the Other Currency and shall take into account any premium and other costs of exchange.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

UNIVERSAL HEALTH SERVICES, INC.

By:/s/ Kirk E. Gorman

Title: Senior Vice President

Universal Health Services, Inc.
367 South Gulph Road
King of Prussia, PA 19406
Attention: General Counsel
Phone: (610) 768-3300
Facsimile: (610) 992-4566

JPMORGAN CHASE BANK,
as Administrative Agent

By:/s/ Dawn Lee Lum

Title: Vice President

Agent Bank Services
One Chase Manhattan Plaza, 8 th Floor
New York, NY 10081
Attention: Ann Bowles
Facsimile No.: 212-552-7500
cc: 270 Park Avenue
New York, NY 10017
Attention: Dawn Lee Lum
Facsimile No.: 212-270-3279

BANK OF AMERICA, N.A.,
as Syndication Agent

By:/s/ Kevin Wagley

Title: Principal

FIRST UNION NATIONAL BANK,
as Co-Documentation Agent

By:/s/ Jeanette A. Griffin

Title: Vice President

FLEET NATIONAL BANK,
as Co-Documentation Agent

By:/s/ Carol Castle

Title: Director

BANKS:

JPMORGAN CHASE BANK

By:/s/ Dawn Lee Lum

Title: Vice President

BANK OF AMERICA, N.A.

By:/s/ Kevin Wagley

Title: Principal

FIRST UNION NATIONAL BANK

By:/s/ Jeanette A. Griffin

Title: Vice President

FLEET NATIONAL BANK

By:/s/ Carol Castle

Title: Director

ABN AMRO BANK N.V.

By:/s/ James Kreitler

Title: Group Vice President

By:/s/ Craig Trautwein

Title: Vice President

BANCO POPULAR DE PUERTO RICO

By:/s/ Hector A. Vina

Title: Vice President

SUNTRUST BANK

By:/s/ William D. Priester

Title: Vice President

THE BANK OF NEW YORK

By:/s/ Michael Flannery

Title: Vice President

NATIONAL CITY BANK OF
KENTUCKY

By:/s/ Rob King

Title: Senior Vice President

PNC BANK

By:/s/ Nicholas A. Aponte

Title: Vice President

PRICING SCHEDULE

The "Euro-Currency Margin", "CD Margin", "Facility Fee Rate" and "LC Fee Rate" for any day are the respective percentages set forth below in the applicable row under the column corresponding to the Status that exists on such day:

Status	Level I	Level II	Level III
Euro-Currency Margin	0.800%	1.000%	1.150%
CD Margin	0.925%	1.125%	1.275%
Facility Fee Rate	0.200%	0.250%	0.350%
LC Fee Rate	0.800%	1.000%	1.150%

For purposes of this Schedule, the following terms have the following meanings:

"Applicable Leverage Ratio" means, at any date of determination, the Leverage Ratio as at the date of the financial statements then most recently delivered pursuant to Section 5.01 not less than three Euro-Dollar Business Days prior to such date of determination; provided that at any time at which a Default exists under Section 5.01(a), 5.01(b) or 5.01(c), the Applicable Leverage Ratio shall be deemed to be greater than 0.62.

"Level I Status" exists at any date if, at such date, the Applicable Leverage Ratio is less than 0.50.

"Level II Status" exists at any date if, at such date, (i) the Applicable Leverage Ratio is less than 0.62 and (ii) Level I Status does not exist.

"Level III Status" exists at any date if, at such date, no other Status exists.

"Status" refers to the determination of which of Level I Status, Level II Status or Level III Status exists at any date.

COMMITMENT SCHEDULE

BANK	COMMITMENT
JPMorgan Chase Bank	$ 62,500,000
Bank of America, N.A.	$ 57,500,000
First Union National Bank	$ 50,000,000
Fleet National Bank	$ 50,000,000
ABN Amro Bank N.V.	$ 35,000,000
Banco Popular de Puerto Rico	$ 35,000,000
SunTrust Bank	$ 35,000,000
The Bank of New York	$ 25,000,000
National City Bank of Kentucky	$ 25,000,000
PNC Bank	$ 25,000,000
TOTAL	$400,000,000

SCHEDULE 1
Subsidiaries

Name of Subsidiary	Jurisdiction of Incorporation
ASC of Brownsville, Inc.	Delaware
ASC of Corona, Inc.	California
ASC of Hammond, Inc.	Delaware
ASC of Las Vegas, Inc.	Nevada
ASC of Littleton, Inc.	Colorado
ASC of Midwest City, Inc.	Oklahoma
ASC of New Albany, Inc.	Indiana
ASC of Palm Springs, Inc.	California
ASC of Ponca City, Inc.	Oklahoma
ASC of Reno, Inc.	Nevada
ASC of Springfield, Inc.	Missouri
ASC of St. George, Inc.	Utah
Aiken Regional Medical Centers, Inc.	South Carolina
Ambulatory Surgery Center of Brownsville, L.P.	Delaware
Arbour Elder Services, Inc.	Massachusetts
Arkansas Surgery Center of Brownsville, L.P.	Arkansas
Auburn Regional Medical Center, Inc.	Washington
Bluegrass Regional Cancer Center, L.L.P.	Kentucky
Capitol Radiation Therapy, L.L.P.	Kentucky
Chalmette Medical Center, Inc.	Louisiana
Children's Reach, L.L.C.	Pennsylvania
Choate Health Management, Inc.	Massachusetts
Cie Financiere & Immobiliere Medicale	France
Clinic Management Services	France

Name of Subsidiary	Jurisdiction of Incorporation
Clinique Andre Pare	France
Clinique Bon Secours	France
Clinique de Bercy	France
Clinique Investissement	France
Clinique Pasteur	France
Clinique Richelieu	France
Clinique Saint Augustin	France
Comprehensive Occupational and Clinical Health, Inc.	Delaware
C.S.J.	France
Danville Radiation Therapy, L.L.P.	Kentucky
Del Amo Hospital, Inc.	California
District Hospital Partners, L.P.	District of Columbia
Doctors' Hospital of Shreveport, Inc.	Louisiana
Eye West Laser Vision, L.P.	Delaware
Fonciere G	France
Forest View Psychiatric Hospital, Inc.	Michigan
Fort Duncan Medical Center, Inc.	Delaware
Fort Duncan Medical Center, L.P.	Delaware
G. V. I.	France
Glen Oaks Hospital, Inc.	Texas
Gravelle Bercy	France
HRI Clinics, Inc.	Massachusetts
HRI Hospital, Inc.	Massachusetts
Health Care Finance & Construction Corp.	Delaware
Holding Saint Augustin	France
Hope Square Surgical Center, L.P.	Delaware

Name of Subsidiary	Jurisdiction of Incorporation
Immobliere Bon Secours	France
Immobliere de la Clinique Richelieu	France
Immobliere Saint Augustin	France
Inland Valley Regional Medical Center, Inc.	California
Internal Medicine Associates of Doctors' Hospital, Inc.	Louisiana
La Amistad Residential Treatment Center, Inc.	Florida
Laredo Holdings, Inc.	Delaware
Laredo Regional Medical Center, L.P.	Delaware
Laredo Regional, Inc.	Delaware
Madison Radiation Oncology Associates, L.L.C.	Indiana
Maison de Sante Pasteur	France
Manatee Memorial Hospital, L.P.	Delaware
McAllen Hospitals, L.P.	Delaware
McAllen Medical Center Physicians Group, Inc.	Texas
Medi-Partenaires SAS	France
Meridell Achievement Center, Inc.	Texas
Merion Building Management, Inc.	Delaware
Nevada Radiation Oncology Center-West, L.L.C.	Nevada
New Albany Outpatient Surgery, L.P.	Delaware
North Penn Hospital, L.L.C.	Pennsylvania
Northern Nevada Ambulatory Surgical Center, L.L.C.	Nevada
Northern Nevada Medical Center, L.P.	Delaware
Northwest Texas Healthcare System, Inc.	Texas
Northwest Texas Surgical Hospital, L.L.C.	Texas
Nouvelle Clinique Villette	France

Name of Subsidiary	Jurisdiction of Incorporation
Oasis Health Systems, L.L.C.	Nevada
Plaza Surgery Center Limited Partnership	Nevada
Polyclinique Saint Jean	France
Professional Probation Services, Inc.	Georgia
Professional Surgery Corporation of Arkansas	Arkansas
Pueblo Medical Center, Inc.	Nevada
RCW of Edmond, Inc.	Oklahoma
Radiation Therapy Associates of California, L.L.C.	California
Relational Therapy Clinic, Inc.	Louisiana
Renaissance Women's Center of Austin, L.L.C.	Texas
Renaissance Women's Center of Edmond, L.L.C.	Oklahoma
River Crest Hospital, Inc.	Texas
River Oaks, Inc.	Louisiana
River Parishes Internal Medicine, Inc.	Louisiana
Sante Finance SA	France
Sante Investissment	France
Sante Parteniers S.a.r.l.	Luxembourg
Socrate	France
South Texas Heart, Inc.	Delaware
South Texas Holdings, Inc.	Delaware
Southern Indiana Radiation Oncology Associates, L.L.C.	Indiana
Sparks Family Hospital, Inc.	Nevada
St. George Surgical Center, L.P.	Delaware
St. Louis Behavioral Medicine Institute, Inc.	Missouri
Ste Nille D'Exploitation de la Clinique Cardiologique D'Aressy	France

Name of Subsidiary	Jurisdiction of Incorporation
Summerlin Hospital Medical Center, L.L.C.	Delaware
Summerlin Hospital Medical Center, L.P.	Delaware
Surgery Center of Corona, L.P.	Delaware
Surgery Center of Hammond, L.L.C.	Delaware
Surgery Center of Littleton, L.P.	Delaware
Surgery Center of Midwest City, L.P.	Delaware
Surgery Center of Ponca City, L.P.	Delaware
Surgery Center of Springfield, L.P.	Delaware
Surgery Center of Waltham, Limited Partnership	Massachusetts
The Alliance for Creative Development, Inc.	Pennsylvania
The Arbour, Inc.	Massachusetts
The Bridgeway, Inc.	Arkansas
The Pavilion Foundation	Illinois
Tonopah Health Services, Inc.	Nevada
Trenton Street Corporation	Texas
Turning Point Care Center, Inc.	Georgia
Two Rivers Psychiatric Hospital, Inc.	Delaware
UHS Advisory, Inc.	Delaware
UHS Broadlane Holdings L.P.	Delaware
UHS Health Partners S.a.r.l.	Luxembourg
UHS Holding Company, Inc.	Nevada
UHS International, Inc.	Delaware
UHS Ireland Limited	Ireland
UHS Las Vegas Properties, Inc.	Nevada
UHS Managed Care Operations, L.L.C.	Pennsylvania
UHS Midwest Center for Youth and Families, Inc.	Indiana

Name of Subsidiary	Jurisdiction of Incorporation
UHS Receivables Corp.	Delaware
UHS Recovery Foundation, Inc.	Pennsylvania
UHS of Anchor, L.P.	Delaware
UHS of Belmont, Inc.	Delaware
UHS of Bradenton, Inc.	Florida
UHS of D.C., Inc.	Delaware
UHS of Delaware, Inc.	Delaware
UHS of Eagle Pass, Inc.	Delaware
UHS of Fairmount, Inc .	Delaware
UHS of Fayetteville, Inc.	Arkansas
UHS of Florida, Inc.	Florida
UHS of Fuller, Inc.	Massachusetts
UHS of Georgia Holdings, Inc.	Delaware
UHS of Georgia, Inc.	Delaware
UHS of Greenville, Inc.	Delaware
UHS of Hampton Learning Center, Inc.	New Jersey
UHS of Hampton, Inc.	New Jersey
UHS of Hartgrove, Inc.	Illinois
UHS of Lakeside, Inc.	Delaware
UHS of Laurel Heights, L.P.	Delaware
UHS of Manatee, Inc.	Florida
UHS of New Orleans, Inc.	Louisiana
UHS of Odessa, Inc.	Texas
UHS of Oklahoma, Inc.	Oklahoma
UHS of Palmdale, Inc.	Delaware
UHS of Parkwood, Inc.	Delaware
UHS of Peachford, L.P.	Delaware

Name of Subsidiary	Jurisdiction of Incorporation
UHS of Pennsylvania, Inc.	Pennsylvania
UHS of Provo Canyon, Inc.	Delaware
UHS of Puerto Rico, Inc.	Delaware
UHS of Ridge, Inc.	Delaware
UHS of River Parishes, Inc.	Louisiana
UHS of Rockford, Inc.	Delaware
UHS of Talbot, L.P.	Delaware
UHS of Timberlawn, Inc.	Texas
UHS of Waltham, Inc.	Massachusetts
UHS of Westwood Pembroke, Inc.	Massachusetts
UHSMS, Inc.	Delaware
UHSR Corporation	Delaware
Universal Community Behavioral Health, Inc.	Pennsylvania
Universal Health Network, Inc.	Nevada
Universal Health Pennsylvania Properties, Inc.	Pennsylvania
Universal Health Recovery Centers, Inc.	Pennsylvania
Universal Health Services of Cedar Hill, Inc.	Texas
Universal Health Services of Concord, Inc.	California
Universal Health Services of Palmdale, Inc.	Delaware
Universal Health Services of Rancho Springs, Inc.	California
Universal Probation Services, Inc.	Georgia
Universal Treatment Centers, Inc.	Delaware
Valley Health System, L.L.C.	Delaware
Valley Hospital Medical Center, Inc.	Nevada
Valley Surgery Center, L.P.	Delaware
Victoria Regional Medical Center, Inc.	Texas

Name of Subsidiary	Jurisdiction of Incorporation
Vista Diagnostic Center, L.L.C .	Nevada
Wellington Physician Alliances, Inc.	Florida
Wellington Regional Health & Education Foundation, Inc.	Florida
Wellington Regional Medical Center Incorporated	Florida

SCHEDULE 2
Insurance

Policy	Carrier	States Covered	Policy Limits	Rating Plan	Projected Ultimate Cost
Property - U. S.	UHS Self Insured Retention	All	$5M / annual aggregate	Self Insured	$ 1,000,000
	Royal Insurance	All	$200M, excess of $1M self insured annual aggregate	Gtd. Cost	$ 800,000
Property - Puerto Rico	Royal Insurance	Puerto Rico	$132M	GTd. Cost	$ 290,000
	Lilely Insurers: Royal, Reliance	Puerto Rico	$50M x $10M	Gtd. Cost	$ 360,000
Primary General and Hospital Professional Liability	Self Insured	All	CGL - $10,000,000 each occurrence* HPL - $10,000,000 each occurrence* Excludes: McAllen, Edinburg, McAllen Heart Hospital, Fort Duncan, UHS of Puerto Rico, Inc.(3 hospitals), Hospital San Juan Capestrano	Self Insured	$ 27,100,000
First Excess Layer CGL, HPL, Auto, EL	Likely Insurers: CNA, AIG, Transatlantic Swiss RE, General RE	All	CGL - $15M x $10M HPL - $15M x $10M Auto and EL - $19M x $1M	Gtd. Cost	$ 11,500,000
Second Excess Layer General and Hospital Professional Liability	X. L. Insurance Co.	All	CGL - $75M x $25M HPL - $75M x $25M	Gtd. Cost	$ 300,000
McAllen Medical Center Edinburg Regional Medical Center	Texas Joint Underwriting Association (JUA)	Texas	HPL - $1M / $3M (separate limits each hospital)	Gtd. Cost	$ 2, 200,000

McAllen Heart Hospital	Fireman's Fund	Texas	CGL & HPL - $1M / $3M	Gtd. Cost	$ 250,000
Fort Duncan Medical Center	JUA	Texas	HPL - $1M / $3M	Gtd. Cost	$ 350,000
UHS of Puerto Rico, Inc. San Juan Capestrano	CGL - AIG HPL - SiMed	Puerto Rico	CGL - $1M / $3M* HPL - $100K / $300K* *Limits excess of the primary limits shown above are self insured up to $10M per occurrence.	Gtd. Cost Gtd. Cost	$ 75,000 $ 1,250,000
Louisiana Patients' Compensation Fund	State of Louisiana	Louisiana	$400,000 x $100,000 HPL Only	State Fund	$ 500,000
Radiation Therapy Program Primary and Excess General and Professional Liability	Doctors Company	Indiana, Kentucky Nevada, Washington California	Primary CGL / HPL - $1M / $3M Excess CGL / HPL - $10M / occ	Gtd. Cost	$ 85,000
Workers' Compensation and Employers Liability	AIG	All except WA	WC - statutory EL - $2,000,000	Large Loss Deductible Program - $500K each accident	Fixed Exp. $3.1M Variable Exp.- $6.4M
Excess Workers' Compensation and EL	AIG	WA	WC - Statutory EL - $2,000,000	Large Loss Deductible Program - $500K each accident	$ 10,000
Commercial Automobile	Likely Insurers: Royal Insurance AIG	US	$1M per occurrence limit	Large Loss Deductible - 100K	Premium - $160K Losses - $400K
		Puerto Rico	$1M per occurrence limit	Gtd.Cost	$ 65,000
Comprehensive Crime	Federal	All	$3M policy limit	Gtd. Cost	$ 40,000
Fiduciary & Special Crime	National Union	All	$10M policy limit including defense Special Crime - $1M policy limit	Gtd. Cost	$ 25,000

UHS / REIT Directors' and Officers' Liability	Genesis	All	$5M policy limit including defense	Gtd. Cost	$ 125,000
Managed Care E&O / D&O	ERC	SC, CA, NV, LA, TX	E&O - $1M / $1M D&O - $3M /$ 3M	Gtd. Cost	$ 176,500
Airport Premises Liability Non- Owned Aircraft Liability Excess Premises and Non-Owned Aircraft Liability	AIG Aviation	All	$100M policy limit	Gtd. Cost	$ 90,000

EXHIBIT A

NOTE

New York, New York

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For value received, [NAME OF BORROWER] (the "Borrower"), promises to pay to the order of (the "Bank"), for the account of its Applicable
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Lending Office, the unpaid principal amount of each Loan made by the Bank to the Borrower pursuant to the Credit Agreement referred to below on the maturity date provided for in the Credit Agreement. The Borrower promises to pay interest on the unpaid principal amount of each such Loan on the dates and at the rate or rates provided for in the Credit Agreement. All such payments of principal and interest shall be made (i) if in Dollars, in lawful money of the United States in Federal or other immediately available funds at the office of JPMorgan Chase Bank, at One Chase Manhattan Plaza, New York, New York or (ii) if in an Alternative Currency, in such funds as may then be customary for the settlement of international transactions in such Alternative Currency at the place specified for payment thereof pursuant to the Credit Agreement.

All Loans made by the Bank, the respective types and maturities thereof and all repayments of the principal thereof shall be recorded by the Bank and, if the Bank so elects in connection with any transfer or enforcement hereof, appropriate notations to evidence the foregoing information with respect to each such Loan then outstanding may be endorsed by the Bank on the schedule attached hereto, or on a continuation of such schedule attached to and made a part hereof; provided that the failure of the Bank to make any such recordation or endorsement shall not affect the obligations of the Borrower hereunder or under the Credit Agreement.

This note is one of the Notes referred to in the Credit Agreement dated as of December 13, 2001 among Universal Health Services, Inc., a Delaware corporation, the Eligible Subsidiaries referred to therein, the banks listed on the signature pages thereof, JPMorgan Chase Bank, as Administrative Agent, Bank of America, N.A., as Syndication Agent and First Union National Bank and Fleet National Bank, as Co-Documentation Agents (as the same may be amended from time to time, the "Credit Agreement"). Terms defined in the Credit Agreement and not otherwise defined herein are used herein with the same meanings. Reference is made to the Credit Agreement for provisions for the prepayment hereof and the acceleration of the maturity hereof.

[NAME OF BORROWER]

By:

Name:
Title:

Note (cont'd)

LOANS AND PAYMENTS OF PRINCIPAL

Date	Currency and Amount of Loan	Type of Loan	Principal Repaid	Maturity Date	Notation Made By

Form of Competitive Bid Quote Request

[Date]

To: JPMorgan Chase Bank
(the "Administrative Agent")

From:[Name of Borrower] (the "Borrower")

Re: Credit Agreement (as the same may be amended from time to time, the "Credit Agreement") dated as of December 13, 2001 among Universal Health Services, Inc., the Eligible Subsidiaries referred to therein, the Banks party thereto, the Administrative Agent, Bank of America, N.A., as Syndication Agent and First Union National Bank and Fleet National Bank, as Co-Documentation Agents

We hereby give notice pursuant to Section 2.03 of the Credit Agreement that we request Competitive Bid Quotes for the following proposed Competitive Bid Borrowing(s):

Date of Borrowing:

Principal Amount *	Interest Period **
$	

Such Competitive Bid Quotes should offer a Competitive Bid [Margin] [Absolute Rate]. [The applicable base rate is the London Interbank Offered Rate.]

Terms used herein and not otherwise defined herein have the meanings assigned to them in the Credit Agreement.

[NAME OF BORROWER]

By

Name:
Title:

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* Amount must be $5,000,000 or a larger multiple of $1,000,000.

** Not less than one month (LIBOR Auction) or not less than 7 days (Absolute Rate Auction), subject to the provisions of the definition of Interest Period.

EXHIBIT C - Invitation for Competitive Bid Quotes

Form of Invitation for Competitive Bid Quotes

To: [Name of Bank]

Re: Invitation for Competitive Bid Quotes to [Name of Borrower] (the "Borrower")

Pursuant to Section 2.03 of the Credit Agreement dated as of December 13, 2001 among Universal Health Services, Inc., the Eligible Subsidiaries referred to therein, the Banks party thereto, the undersigned, as Administrative Agent, Bank of America, N.A., as Syndication Agent and First Union National Bank and Fleet National Bank, as Co-Documentation Agents, we are pleased on behalf of the Borrower to invite you to submit Competitive Bid Quotes to the Borrower for the following proposed Competitive Bid Borrowing(s):

Date of Borrowing:

Principal Amount	Interest Period
$	

Such Competitive Bid Quotes should offer a Competitive Bid [Margin] [Absolute Rate]. [The applicable base rate is the London Interbank Offered Rate.]

Please respond to this invitation by no later than [2:00 P.M.] [9:30 A.M.] (New York City time) on [date].

Terms used herein and not otherwise defined herein have the meanings assigned to them in the Credit Agreement.

JPMORGAN CHASE BANK,
as Administrative Agent

By

Authorized Officer

EXHIBIT D - Competitive Bid Quote

Form of Competitive Bid Quote

To: JPMorgan Chase Bank, as Administrative Agent

Re: Competitive Bid Quote to [Name of Borrower] (the "Borrower")

In response to your invitation on behalf of the Borrower dated , , we hereby make the following Competitive Bid Quote on the following terms:

1. Quoting Bank:

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2. Person to contact at Quoting Bank:

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3. Date of Borrowing: *

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4. We hereby offer to make Competitive Bid Loan(s) in the following principal amounts, for the following Interest Periods and at the following rates:

Principal Amount **	Interest Period ***	Competitive Bid [Margin ****]	[Absolute Rate *****]

[Provided, that the aggregate principal amount of Competitive Bid Loans for which the above offers may be accepted shall not exceed $.]**

We understand and agree that the offer(s) set forth above, subject to the satisfaction of the applicable conditions set forth in the Credit Agreement dated as of December 13, 2001 among Universal Health Services, Inc., the Eligible Subsidiaries referred to therein, the Banks party thereto, yourselves, as Administrative Agent, Bank of America, N.A., as Syndication Agent and First Union National Bank and Fleet National Bank, as Co-

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* As specified in the related Invitation.

** Principal amount bid for each Interest Period may not exceed principal amount requested. Specify aggregate limitation if the sum of the individual offers exceeds the amount the Bank is willing to lend. Each bid must be made for $5,000,000 or a larger multiple of $1,000,000..

*** Not less than one month or not less than 7 days, as specified in the related Invitation. No more than five bids are permitted for each Interest Period.

**** Margin over or under the London Interbank Offered Rate determined for the applicable Interest Period. Specify percentage (to the nearest 1/10,000th of 1%) and specify whether "PLUS" or "MINUS".

***** Specify rate of interest per annum (to the nearest 1/10,000th of 1%).

Documentation Agents, irrevocably obligate(s) us to make the Competitive Bid Loan(s) for which any offer(s) are accepted, in whole or in part.

Very truly yours,

[NAME OF BANK]

Dated: ---------- By: ----------
Authorized Officer

[Opinion of Fulbright & Jaworski L.L.P.,
Counsel for the Company]

To the Banks Referred to Below
c/o JPMorgan Chase Bank, as Administrative Agent
270 Park Avenue
New York, New York 10017

Re: Credit Agreement dated as of December 13, 2001 among Universal Health Services, Inc., the Eligible Subsidiaries referred to therein, the banks named therein (the "Banks"), JPMorgan Chase Bank (the "Administrative Agent"), as Administrative Agent, Bank of America, N.A., as Syndication Agent and First Union National Bank and Fleet National Bank, as Co-Documentation Agents

Ladies and Gentlemen:

We have acted as counsel to Universal Health Services, Inc., a Delaware corporation (the "Company"), and its existing corporate Subsidiaries, in connection with the Credit Agreement referred to above (the "Credit Agreement"), which provides for the extension of loans to the Company by the Banks in an aggregate principal amount not exceeding $400,000,000 at any one time outstanding. All terms defined in the Credit Agreement are used herein with their defined meanings unless the context otherwise requires. For purposes of this opinion, the term "Documents" shall mean collectively, the Credit Agreement and the Notes.

In connection with this opinion, we have examined the Documents and such other documents and questions of law as we deem necessary for the purposes of this opinion. We have also examined such certificates of public officials, corporate officers of the Company and of other persons as we have deemed relevant and appropriate as a basis for the opinions expressed herein, and we have made no effort to independently verify the facts set forth in such certificates. Further, in making the foregoing examinations, we have assumed the genuineness of all signatures, the legal capacity of each person signatory to any of the documents reviewed by us, the authenticity of all documents submitted to us as originals and the conformity to authentic original documents of all documents submitted to us as copies. In making the foregoing examinations, we have assumed that all representations and warranties made in the aforesaid documents (other than those which are expressed herein as our opinions) were and are true, correct and complete.

In rendering the opinions expressed herein, we have assumed that (a) each of the Documents has been duly authorized, executed and delivered by each of the parties thereto, (b) each such party has the requisite power and authority to execute, deliver and

perform its obligations under each of the Documents and (c) the Documents constitute the legal, valid and binding obligations of each of the parties thereto (other than of the Company as provided in the next paragraph).

Based upon the foregoing, and upon an examination of such questions of law as we have considered necessary or appropriate, and subject to the assumptions, exceptions, qualifications and limitations set forth herein, we advise you that, in our opinion each of the Documents is a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms.

Our opinions are subject to the following assumptions, exceptions, qualifications and limitations:

A. Our opinions are expressly limited to matters under and governed by the internal laws of the State of New York and the Federal laws of the United States. With respect to laws, regulations and the like referred to herein, in addition to all other limitations set forth herein, such references are limited to laws, regulations and the like of the State of New York and the United States as are in effect and force as of even date of this opinion.

B. Our opinions are subject to the following:

(1) The enforceability of a Document may be limited or affected by (a) bankruptcy, insolvency, reorganization, moratorium, liquidation, rearrangement, probate, conservatorship, fraudulent transfer, fraudulent conveyance and other similar laws (including court decisions) now or hereafter in effect and affecting the rights and remedies of creditors generally or providing for the relief of debtors, (b) the refusal of a particular court to grant (i) equitable remedies, including, without limiting the generality of the foregoing, specific performance and injunctive relief, or (ii) a particular remedy sought under any Document as opposed to another remedy provided for therein or another remedy available at law or in equity, (c) general principles of equity (regardless of whether such remedies are sought in a proceeding in equity or at law), and (d) judicial discretion.

(2) We express no opinion as to the legality, validity, enforceability or binding effect of any provisions relating to indemnities and rights of contribution to the extent prohibited by public policy or which might require indemnification for losses or expenses caused by negligence, gross negligence, willful misconduct, fraud or illegality of an indemnified party.

(3) We note that the enforceability of specific provisions of the Documents may be subject to standards of reasonableness, care and diligence and "good faith" limitations and obligations such as those provided in Sections 1-102(3), 1-203, 1-208 and 5-109 of the New York Uniform Commercial Code, and applicable principles of common law and judicial decisions.

(4) We have assumed that the Banks will enforce each Document in compliance with the provisions thereof and all requirements of applicable law.

(5) We express no opinion as to the validity or enforceability of any provision of a Document that:

(a) purports to waive or otherwise affect any right, defense or the application of any law that cannot be waived or otherwise affected as a matter of law;

(b) constitutes a submission to or acceptance of the jurisdiction of, or permits an action against any person to be brought, or waives any objection to the laying of venue or choice of forum in such an action, in the courts of any jurisdiction, other than the courts of the State of New York or the federal courts of the United States of America sitting in the State of New York; or

(c) permits an action against any person to be brought in the courts of the State of New York or in the federal courts of the United States of America sitting in the State of New York: (i) if such Person has not been served with process in that action in accordance with applicable rules of procedure; or (ii) if the court in which the action is brought does not have jurisdiction of the subject matter of the action.

The opinions expressed herein are solely for the benefit of, and may only be relied upon by, the addresses hereof. This opinion may not be furnished to, or relied upon by, any other person without the prior written consent of this Firm. The opinions expressed herein are as of the date hereof, and we make no undertaking to amend or supplement such opinions as facts and circumstances come to our attention or changes in the law occur which could affect such opinions.

Very truly yours,

EXHIBIT E-2

[Opinion of General Counsel of the Borrower]

[Effective Date]

To the Banks Referred to Below
c/o JPMorgan Chase Bank,
as Administrative Agent
270 Park Avenue
New York, New York 10017

Fulbright & Jaworski L.L.P.
666 Fifth Avenue
New York, NY 10103

Re: Credit Agreement dated as of December 13, 2001, among Universal Health Services, Inc., the Eligible Subsidiaries referred to therein, the banks named therein (the "Banks"), JPMorgan Chase Bank (the "Administrative Agent"), as Administrative Agent, Bank of America, N.A., as Syndication Agent and First Union National Bank and Fleet National Bank, as Co-Documentation Agents

Ladies and Gentlemen:

I am General Counsel to Universal Health Services, Inc., a Delaware corporation (the "Company"), and its existing corporate Subsidiaries, and I am rendering this opinion in connection with the Credit Agreement referred to above (the "Credit Agreement"), which provides for the extension of loans to the Company by the Banks in an aggregate principal amount not exceeding $400,000,000 at any one time outstanding. All terms defined in the Credit Agreement are used herein with their defined meanings unless the context otherwise requires.

In connection with this opinion I have examined such certificates of officers of the Company and its Subsidiaries and originals or copies certified to my satisfaction of such corporate documents and resolutions of the Company and its Subsidiaries and other corporate records as I have deemed relevant and necessary as the basis for my opinion hereinafter set forth. I have relied upon (i) such certificates of officers of the Company and its Subsidiaries with respect to the accuracy of factual matters contained therein with respect to the operations and properties of the Company and its Subsidiaries and (ii) certain certificates of public officials.

On the basis of the foregoing, I am of the opinion that:

1. Each of the Company and its existing corporate Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of

its incorporation and is duly qualified as a foreign corporation and in good standing in each other jurisdiction in which the conduct of its business or the ownership of its property requires such qualification.

2. Each of the Company and its existing Subsidiaries has all corporate powers required to own its properties and conduct its business as now conducted. The Company has the corporate power and authority to execute, deliver and perform the Credit Agreement and its Notes and to borrow under the Credit Agreement. The Company has taken all necessary corporate action to authorize the borrowings under the Credit Agreement and to authorize the execution, delivery and performance of the Credit Agreement and its Notes.

3. The execution, delivery and performance by the Company of the Credit Agreement and its Notes will not violate any provision of any existing law or regulation or the Restated Certificate of Incorporation, as amended, or By-Laws of the Company or the charter or by-laws of any such Subsidiary or, to the best of my knowledge after due inquiry, of any judgment, order, decree or award of any court, arbitrator or governmental body, any mortgage, indenture, security agreement, contract, undertaking or other agreement to which the Company or any Subsidiary is a party or that is or may be binding upon any of them or any of their respective properties or assets and of which I have knowledge and will not result in the imposition or creation of any Lien on any thereof pursuant to the provisions of any such mortgage, indenture, security agreement, contract, undertaking or other agreement to which the Company or any Subsidiary is a party or that is or may be binding upon any of them or any of their respective properties or assets and of which I have knowledge.

4. No consent of any other Person (including stockholders of the Company) and no license, approval or authorization of, exemption by, or registration or declaration with, any governmental body is required in connection with the execution, delivery or performance by the Company, or the validity or enforceability against the Company of the Credit Agreement and its Notes.

5. To the best of my knowledge after due inquiry, except as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2000, which has previously been delivered to the Banks, there are no actions, suits or proceedings pending or threatened against or affecting the Company or any Subsidiary or any of their respective properties in any court or before any arbitrator of any kind or before or by any governmental body, except actions, suits or proceedings of the character normally incident to the kind of business conducted by the Company and its Subsidiaries that (a) would not materially impair the right or ability of the Company or any Subsidiary to carry on its business substantially as now conducted and (b) would not have a material adverse effect on the consolidated financial condition of the Company and its Subsidiaries, and there are no actions, suits or proceedings pending or threatened that relate to or which in any manner draw into question the validity of any of the transactions contemplated by the Credit Agreement.

6. Neither the Company nor any of its Subsidiaries is an "investment company" or an "affiliated person" thereof, within the meaning of the Investment Company Act of 1940, as amended, and the rules and regulations thereunder.

The opinions set forth above are subject to the following qualifications:

(a) The enforceability of the Company's obligations under the Credit Agreement and its Notes are subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally;

(b) I express no opinion as to the availability of the equitable remedy of specific performance (other than with respect to obligations for the payment of money) or injunctive relief; and

(c) I am qualified to practice law in the Commonwealth of Pennsylvania and nothing herein shall constitute an opinion as to the laws of any jurisdiction other than the laws of the Commonwealth of Pennsylvania and the federal law of the United States of America.

Very truly yours,

EXHIBIT F

OPINION OF
DAVIS POLK & WARDWELL, SPECIAL COUNSEL
FOR THE ADMINISTRATIVE AGENT

To the Banks and the Administrative Agent
Referred to Below
c/o JPMorgan Chase Bank, as Administrative Agent
270 Park Avenue
New York, New York 10017

Dear Sirs:

We have participated in the preparation of the Credit Agreement (the "Credit Agreement") dated as of December 13, 2001 among Universal Health Services, Inc., a Delaware corporation (the "Company"), the Eligible Subsidiaries referred to therein, the banks listed on the signature pages thereof (the "Banks"), JPMorgan Chase Bank, as Administrative Agent (the "Administrative Agent"), Bank of America, N.A., as Syndication Agent and First Union National Bank and Fleet National Bank, as Co-Documentation Agents, and have acted as special counsel for the Administrative Agent for the purpose of rendering this opinion pursuant to Section 3.01(e) of the Credit Agreement. Terms defined in the Credit Agreement are used herein as therein defined.

We have examined originals or copies, certified or otherwise identified to our satisfaction, of such documents, corporate records, certificates of public officials and other instruments and have conducted such other investigations of fact and law as we have deemed necessary or advisable for purposes of this opinion.

Upon the basis of the foregoing, we are of the opinion that:

1. The execution, delivery and performance by the Company of the Credit Agreement and the Notes are within the Company's corporate powers and have been duly authorized by all necessary corporate action.

2. The Credit Agreement constitutes a valid and binding agreement of the Company and each of its Notes constitutes a valid and binding obligation of the Company, in each case enforceable in accordance with its terms, except as the same may be limited by bankruptcy, insolvency or similar laws affecting creditors' rights generally and by general principles of equity.

We are members of the Bar of the State of New York and the foregoing opinion is limited to the laws of the State of New York, the federal laws of the United States of America and the General Corporation Law of the State of Delaware. In giving the

foregoing opinion, we express no opinion as to the effect (if any) of any law of any jurisdiction (except the State of New York) in which any Bank is located which limits the rate of interest that such Bank may charge or collect.

This opinion is rendered solely to you in connection with the above matter. This opinion may not be relied upon by you for any other purpose or relied upon by any other person without our prior written consent.

Very truly yours,

EXHIBIT G

ELECTION TO PARTICIPATE

, 200
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JPMorgan Chase Bank, as
Administrative Agent for
the Lenders party to the Credit
Agreement dated as of December 13, 2001
among Universal Health Services, Inc.,
the Eligible Subsidiaries referred to therein,
such Lenders, the Administrative Agent,
Bank of America, N.A., as Syndication Agent
and First Union National Bank and Fleet
National Bank, as Co-Documentation Agents
(as the same may be amended from time
to time, the "Credit Agreement")

Dear Sirs:

Reference is made to the Credit Agreement described above. Terms not defined herein which are defined in the Credit Agreement have for purposes hereof the meanings provided therein.

The undersigned, [Name of Eligible Subsidiary], a [Jurisdiction of Incorporation] corporation, hereby elects to be an Eligible Subsidiary for purposes of the Credit Agreement, effective from the date hereof until an Election to Terminate shall have been delivered on behalf of the undersigned in accordance with the Credit Agreement. The undersigned confirms that the representations and warranties set forth in Article 9 of the Credit Agreement are true and correct as to the undersigned as of the date hereof, and the undersigned agrees to perform all the obligations of an Eligible Subsidiary under, and to be bound in all respects by the terms of, the Credit Agreement, including without limitation Section 11.09 thereof, as if the undersigned were a signatory party thereto.

[Tax disclosure pursuant to Section 8.04.]

The address to which all notices to the undersigned under the Credit Agreement should be directed is:

[Address]

This instrument shall be construed in accordance with and governed by the laws of the State of New York.

Very truly yours,

[NAME OF ELIGIBLE SUBSIDIARY]

By:

Name:
Title:

The undersigned confirms that [Name of Eligible Subsidiary] is an Eligible Subsidiary for purposes of the Credit Agreement described above.

UNIVERSAL HEALTH SERVICES, INC.

By:

Name:
Title:

Receipt of the above Election to Participate is acknowledged on and as of the date set forth above.

JPMORGAN CHASE BANK,
as Administrative Agent

By:

Name:
Title:

EXHIBIT H

ELECTION TO TERMINATE

, 200
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JPMorgan Chase Bank, as
Administrative Agent for
the Lenders party to the Credit
Agreement dated as of December 13, 2001
among Universal Health Services, Inc.,
the Eligible Subsidiaries referred to therein,
such Lenders, the Administrative Agent,
Bank of America, N.A., as Syndication Agent and
First Union National Bank and Fleet National Bank,
as Co-Documentation Agents
(as the same may be amended from time
to time, the "Credit Agreement")

Dear Sirs:

Reference is made to the Credit Agreement described above. Terms not defined herein which are defined in the Credit Agreement have for purposes hereof the meanings provided therein.

The undersigned, [Name of Eligible Subsidiary], a [Jurisdiction of Incorporation] corporation, hereby elects to terminate its status as an Eligible Subsidiary for purposes of the Credit Agreement, effective as of the date hereof. The undersigned represents and warrants that all principal and interest on all Loans made to the undersigned and all other amounts payable by the undersigned pursuant to the Credit Agreement have been paid in full on or before the date hereof. Notwithstanding the foregoing, this Election to Terminate shall not affect any obligation of the undersigned heretofore incurred under the Credit Agreement or any Note.

This instrument shall be construed in accordance with and governed by the laws of the State of New York.

Very truly yours,

[NAME OF ELIGIBLE SUBSIDIARY]

By:

Name:
Title:

The undersigned confirms that the status of [Name of Eligible Subsidiary] as an Eligible Subsidiary for purposes of the Credit Agreement described above is terminated as of the date hereof.

UNIVERSAL HEALTH SERVICES, INC.

By:

Name:
Title:

Receipt of the above Election to Terminate is acknowledged on and as of the date set forth above.

JPMORGAN CHASE BANK,
as Administrative Agent

By:

Name:
Title:

EXHIBIT I

OPINION OF COUNSEL FOR AN ELIGIBLE SUBSIDIARY

[Dated as provided in Section 3.03 of the Credit Agreement]

To the Lenders and Agents
Referred to Below
c/o JPMorgan Chase Bank
270 Park Avenue
New York, New York 10017

Dear Sirs:

I am counsel to [Name of Eligible Subsidiary], a [Jurisdiction of Incorporation] corporation (the "Borrower") and give this opinion pursuant to Section 3.03 of the Credit Agreement (the "Credit Agreement") dated as of December 13, 2001 among Universal Health Services, Inc., the Eligible Subsidiaries referred to therein, the Lenders party thereto, JPMorgan Chase Bank, as Administrative Agent, Bank of America, N.A., as Syndication Agent and First Union National Bank and Fleet National Bank, as Co-Documentation Agents. Terms defined in the Credit Agreement are used herein as therein defined.

I have examined originals or copies, certified or otherwise identified to my satisfaction, of such documents, corporate records, certificates of public officials and other instruments and have conducted such other investigations of fact and law as I have deemed necessary or advisable for purposes of this opinion.

Upon the basis of the foregoing, I am of the opinion that:

1. The Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of [Jurisdiction of Incorporation], and is a Majority-Owned Consolidated Subsidiary of the Company.

2. The execution and delivery by the Borrower of its Election to Participate and its Notes and the performance by the Borrower of the Credit Agreement and its Notes are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, require no action by or in respect of, or filing with, any governmental body, agency or official and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the Organizational Documents of the Borrower or of any agreement, judgment, injunction, order, decree or other instrument binding upon the Borrower or the Company or any of its Subsidiaries or result in the creation or imposition of any Lien on any asset of the Company or any of its Subsidiaries.

3. The Credit Agreement constitutes a valid and binding agreement of the Borrower and its Notes constitute valid and binding obligations of the Borrower, in each case enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization or other similar laws affecting creditors' rights generally and general principles of equity.

4. Except as disclosed in the Borrower's Election to Participate, there is no income, stamp or other tax of [Jurisdiction of Incorporation and, if different, Principal Place of Business], or any taxing authority thereof or therein, imposed by or in the nature of withholding or otherwise, which is imposed on any payment to be made by the Borrower pursuant to the Credit Agreement or its Notes, or is imposed on or by virtue of the execution, delivery or enforcement of its Election to Participate or its Notes.

Very truly yours,

EXHIBIT J

ASSIGNMENT AND ASSUMPTION AGREEMENT

AGREEMENT dated as of , 20 among [ASSIGNOR] (the "Assignor"), [ELIGIBLE ASSIGNEE] (the "Eligible Assignee"), UNIVERSAL HEALTH SERVICES, INC. (the "Company"), JPMORGAN CHASE BANK, as Administrative Agent (the "Administrative Agent") and [ISSUING BANK(S)], as Issuing Bank(s).

W I T N E S S E T H

WHEREAS, this Assignment and Assumption Agreement (the "Agreement") relates to the Credit Agreement dated as of December 13, 2001 among the Company, the Eligible Subsidiaries referred to therein, the Assignor and the other Banks party thereto, as Banks, the Administrative Agent, Bank of America, N.A., as Syndication Agent and First Union National Bank and Fleet National Bank, as Co-Documentation Agents (the "Credit Agreement");

WHEREAS, as provided under the Credit Agreement, the Assignor has a Commitment to make Loans and participate in Letters of Credit in an aggregate Dollar Amount at any time outstanding not to exceed $,000,000;

WHEREAS, [Syndicated] Loans made to the Borrower by the Assignor under the Credit Agreement in the aggregate Dollar Amount of $ are outstanding at the date hereof;

WHEREAS, Letters of Credit with a total Dollar Amount available for drawing thereunder of $ are outstanding at the date hereof; and

WHEREAS, the Assignor proposes to assign to the Eligible Assignee all of the rights of the Assignor under the Credit Agreement and the other Loan Documents in respect of a portion of its Commitment thereunder in an amount equal to $ (the "Assigned Amount"), together with a corresponding portion of its outstanding [Syndicated] Loans and Letter of Credit Liabilities, and the Eligible Assignee proposes to accept assignment of such rights and assume the corresponding obligations from the Assignor on such terms;

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements contained herein, the parties hereto agree as follows:

SECTION 1. Definitions. All capitalized terms not otherwise defined herein shall have the respective meanings set forth in the Credit Agreement.

SECTION 2. Assignment. The Assignor hereby assigns and sells to the Eligible Assignee all of the rights of the Assignor under the Credit Agreement and the other Loan Documents to the extent of the Assigned Amount, and the Eligible Assignee hereby accepts such assignment from the Assignor and assumes all of the obligations of the Assignor under the Credit Agreement to the extent of the Assigned Amount, including the purchase from the Assignor of the corresponding portion of the principal amount of the Syndicated Loans made by, and Letter of Credit Liabilities of, the Assignor outstanding at the date hereof. Upon the execution and delivery hereof by the Assignor, the Eligible Assignee, the Company and the Administrative Agent and the payment of the amounts specified in Section 3 required to be paid on the date hereof (i) the Eligible Assignee shall, as of the date hereof, succeed to the rights and be obligated to perform the obligations of a Bank under the Credit Agreement with a Commitment in an amount equal to the Assigned Amount, and (ii) the Commitment of the Assignor shall, as of the date hereof, be reduced by a like amount and the Assignor released from its obligations under the Credit Agreement to the extent such obligations have been assumed by the Eligible Assignee. The assignment provided for herein shall be without recourse to the Assignor.

SECTION 3. Payments. As consideration for the assignment and sale contemplated in Section 2 hereof, the Eligible Assignee shall pay to the Assignor on the date hereof in Federal funds the amount heretofore agreed between them. * It is understood that facility and Letter of Credit fees accrued to the date hereof in respect of the Assigned Amount are for the account of the Assignor and such fees accruing from and including the date hereof are for the account of the Eligible Assignee. Each of the Assignor and the Eligible Assignee hereby agrees that if it receives any amount under the Credit Agreement which is for the account of the other party hereto, it shall receive the same for the account of such other party to the extent of such other party's interest therein and shall promptly pay the same to such other party.

SECTION 4. Consents. This Agreement is conditioned upon the consent of the Company, the Issuing Banks and the Administrative Agent pursuant to Section 10.06(c) of the Credit Agreement. The execution of this Agreement by the Company, the Issuing Banks and the Administrative Agent is evidence of this consent.

SECTION 5. Non-Reliance on Assignor. The Assignor makes no representation or warranty in connection with, and shall have no responsibility with respect to, the solvency, financial condition or statements of the Company or any of its Subsidiaries, or the validity and enforceability of the obligations of the Borrower or any of its Subsidiaries in respect of any Loan Document. The Eligible Assignee acknowledges that it has, independently and without reliance on the Assignor, and based on such documents and

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* Amount should combine principal together with accrued interest and breakage compensation, if any, to be paid by the Eligible Assignee, net of any portion of any upfront fee to be paid by the Assignor to the Eligible Assignee. It may be preferable in an appropriate case to specify these amounts generically or by formula rather than as a fixed sum.

information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and will continue to be responsible for making its own independent appraisal of the business, affairs and financial condition of the Company and its Subsidiaries.

SECTION 6. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 7. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered by their duly authorized officers as of the date first above written.

[ASSIGNOR]

By

Title:

[ELIGIBLE ASSIGNEE]

By

Title:

UNIVERSAL HEALTH SERVICES, INC.

By

Title:

JPMORGAN CHASE BANK

By

Title:
[ISSUING BANK]

By

Title:

EXHIBIT K

DESIGNATION AGREEMENT

Reference is made to the Credit Agreement dated as of December 13, 2001 (as amended from time to time, the "Credit Agreement") among Universal Health Services, Inc., a Delaware corporation (the "Company"), the Eligible Subsidiaries referred to therein, the Lenders party thereto, JPMorgan Chase Bank, as Administrative Agent (the "Administrative Agent"), Bank of America, N.A., as Syndication Agent and First Union National Bank and Fleet National Bank, as Co-Documentation Agents. Terms defined in the Credit Agreement are used herein with the same meaning. (the "Designator") and

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(the "Designee") agree as follows:

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1. The Designator designates the Designee as its Designated Lender under the Credit Agreement and the Designee accepts such designation.

2. The Designator makes no representations or warranties and assumes no responsibility with respect to the financial condition of any Borrower or the performance or observance by any Borrower of any of its obligations under the Credit Agreement or any other instrument or document furnished pursuant thereto.

3. The Designee (i) confirms that it is an Eligible Designee; (ii) appoints and authorizes the Designator as its administrative agent and attorney-in-fact and grants the Designator an irrevocable power of attorney to receive payments made for the benefit of the Designee under the Credit Agreement and to deliver and receive all communications and notices under the Credit Agreement, if any, that the Designee is obligated to deliver or has the right to receive thereunder; (iii) acknowledges that the Designator retains the sole right and responsibility to vote under the Credit Agreement, including, without limitation, the right to approve any amendment or waiver of any provision of the Credit Agreement; and (iv) agrees that the Designee shall be bound by all such votes, approvals, amendments and waivers and all other agreements of the Designator pursuant to or in connection with the Credit Agreement, all subject to Section 11.05(b) of the Credit Agreement.

4. The Designee (i) confirms that it has received a copy of the Credit Agreement, together with copies of the most recent financial statements referred to in Article 4 or delivered pursuant to Article 5 thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Designation Agreement and (ii) agrees that it will, independently and without reliance upon the Administrative Agent, the Designator or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking any action it may be permitted to take under the Credit Agreement.

5. Following the execution of this Designation Agreement by the Designator and the Designee and the consent hereto by the Company, it will be delivered to the Administrative Agent for its consent. This Designation Agreement shall become effective when the Administrative Agent consents hereto or on any later date specified on the signature page hereof.

6. Upon the effectiveness hereof, the Designee shall have the right to make Loans or portions thereof as a Lender pursuant to Section 2.01 or 2.03 of the Credit Agreement and the rights of a Lender related thereto. The making of any such Loans or portions thereof by the Designee shall satisfy the obligations of the Designator under the Credit Agreement to the same extent, and as if, such Loans or portions thereof were made by the Designator.

7. This Designation Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, the parties have caused this Designation Agreement to be executed by their respective officers hereunto duly authorized, as of the date first above written.

Effective Date: , 200
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[NAME OF DESIGNATOR]

By:

Name:
Title:

[NAME OF DESIGNEE]

By:

Name:
Title:

The undersigned consent to the foregoing designation.

UNIVERSAL HEALTH SERVICES, INC.

By:

Name:
Title:

JPMORGAN CHASE BANK,
as Administrative Agent

By:

Name:
Title:

Exhibit 22

SUBSIDIARY LISTING

Name of Subsidiary	Jurisdiction of Incorporation
ASC of Brownsville, Inc.	Delaware
ASC of Corona, Inc.	California
ASC of Hammond, Inc.	Delaware
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 Orangeburg, Inc.	Delaware
ASC of Palm Springs, Inc.	California
ASC of Ponca City, Inc.	Oklahoma
ASC of Reno, Inc.	Nevada
ASC of Springfield, Inc.	Missouri
ASC of St. George, Inc.	Utah
Aiken Regional Medical Centers, Inc.	South Carolina
Ambulatory Surgery Center of Brownsville, L.P.	Delaware
Ambulatory Surgery Center or Orangeburg, L.L.C.	Delaware
Arbour Elder Services, Inc.	Massachusetts
Arkansas Surgery Center of Fayetteville, L.P.	Arkansas
Auburn Regional Medical Center, Inc.	Washington
Bluegrass Regional Cancer Center, L.L.P.	Kentucky
Bowling Green Radiation Therapy, LLP	Kentucky
Capitol Radiation Therapy, L.L.P.	Kentucky
Central Montgomery Medical Center, L.L.C.	Pennsylvania

Name of Subsidiary	Jurisdiction of Incorporation
Chalmette Medical Center, Inc.	Louisiana
Children's Reach, L.L.C.	Pennsylvania
Choate Health Management, Inc.	Massachusetts
Cie Financiere & Immobiliere Medicale	France
Clinic Management Services	France
Clinique Andre Pare	France
Clinique Bon Secours	France
Clinique de Bercy	France
Clinique Investissement	France
Clinique Pasteur	France
Clinique Richelieu	France
Clinique Saint Augustin	France
Comprehensive Occupational and Clinical Health, Inc.	Delaware
C.S.J.	France
Danville Radiation Therapy, L.L.P.	Kentucky
Del Amo Hospital, Inc.	California
District Hospital Partners, L.P.	District of Columbia
Doctors' Hospital of Shreveport, Inc.	Louisiana
Eye West Laser Vision, L.P.	Delaware
Fonciere G	France
Forest View Psychiatric Hospital, Inc.	Michigan
Fort Duncan Medical Center, Inc.	Delaware
Fort Duncan Medical Center, L.P.	Delaware
G. V. I.	France
Glen Oaks Hospital, Inc.	Texas

Name of Subsidiary	Jurisdiction of Incorporation
Gravelle Bercy	France
HRI Clinics, Inc.	Massachusetts
HRI Hospital, Inc.	Massachusetts
Health Care Finance & Construction Corp.	Delaware
Holding Saint Augustin	France
Hope Square Surgical Center, L.P.	Delaware
Immobliere Bon Secours	France
Immobliere de la Clinique Richelieu	France
Immobliere Saint Augustin	France
Inland Valley Regional Medical Center, Inc.	California
Internal Medicine Associates of Doctors' Hospital, Inc.	Louisiana
La Amistad Residential Treatment Center, Inc.	Florida
Laredo Holdings, Inc.	Delaware
Laredo Regional Medical Center, L.P.	Delaware
Laredo Regional, Inc.	Delaware
Madison Radiation Oncology Associates, L.L.C.	Indiana
Maison de Sante Pasteur	France
Manatee Memorial Hospital, L.P.	Delaware
McAllen Holdings, Inc.	Delaware
McAllen Hospitals, L.P.	Delaware
McAllen Medical Center, Inc.	Delaware
McAllen Medical Center Physicians Group, Inc.	Texas
Medi-Partenaires SAS	France
Meridell Achievement Center, Inc.	Texas
Merion Building Management, Inc.	Delaware
Nevada Radiation Oncology Center-West, L.L.C.	Nevada

Name of Subsidiary	Jurisdiction of Incorporation
New Albany Outpatient Surgery, L.P.	Delaware
Northern Nevada Ambulatory Surgical Center, L.L.C.	Nevada
Northern Nevada Medical Center, L.P.	Delaware
Northwest Texas Healthcare System, Inc.	Texas
Northwest Texas Surgical Hospital, L.L.C.	Texas
Nouvelle Clinique Villette	France
Oasis Health Systems, L.L.C.	Nevada
Plaza Surgery Center Limited Partnership	Nevada
Polyclinique Saint Jean	France
Professional Probation Services, Inc.	Georgia
Professional Surgery Corporation of Arkansas	Arkansas
Pueblo Medical Center, Inc.	Nevada
RCW of Edmond, Inc.	Oklahoma
Radiation Therapy Associates of California, L.L.C.	California
Relational Therapy Clinic, Inc.	Louisiana
Renaissance Women's Center of Austin, L.L.C.	Texas
Renaissance Women's Center of Edmond, L.L.C.	Oklahoma
River Crest Hospital, Inc.	Texas
River Oaks, Inc.	Louisiana
River Parishes Internal Medicine, Inc.	Louisiana
Sante Finance SA	France
Sante Investissment	France
Sante Parteniers S.a.r.l.	Luxembourg
Socrate	France

Name of Subsidiary	Jurisdiction of Incorporation
Southern Indiana Radiation Oncology Associates, L.L.C.	Indiana
Sparks Family Hospital, Inc.	Nevada
St. George Surgical Center, L.P.	Delaware
St. Louis Behavioral Medicine Institute, Inc.	Missouri
Ste Nille D'Exploitation de la Clinique Cardiologique D'Aressy	France
Summerlin Hospital Medical Center, L.L.C.	Delaware
Summerlin Hospital Medical Center, L.P.	Delaware
Surgery Center of Corona, L.P.	Delaware
Surgery Center of Hammond, L.L.C.	Delaware
Surgery Center of Littleton, L.P.	Delaware
Surgery Center of Midwest City, L.P.	Delaware
Surgery Center of Ponca City, L.P.	Delaware
Surgery Center of Springfield, L.P.	Delaware
Surgery Center of Waltham, Limited Partnership	Massachusetts
The Alliance for Creative Development, Inc.	Pennsylvania
The Arbour, Inc.	Massachusetts
The Bridgeway, Inc.	Arkansas
The Pavilion Foundation	Illinois
Tonopah Health Services, Inc.	Nevada
Trenton Street Corporation	Texas
Turning Point Care Center, Inc.	Georgia
Two Rivers Psychiatric Hospital, Inc.	Delaware
UHS Advisory, Inc.	Delaware

Name of Subsidiary	Jurisdiction of Incorporation
UHS Broadlane Holdings L.P.	Delaware
UHS Health Partners S.a.r.l.	Luxembourg
UHS Holding Company, Inc.	Nevada
UHS International, Inc.	Delaware
UHS Ireland Limited	Ireland
UHS Las Vegas Properties, Inc.	Nevada
UHS Managed Care Operations, L.L.C.	Pennsylvania
UHS Midwest Center for Youth and Families, Inc.	Indiana
UHS Receivables Corp.	Delaware
UHS Recovery Foundation, Inc.	Pennsylvania
UHS of Anchor, L.P.	Delaware
UHS of Belmont, Inc.	Delaware
UHS of Bradenton, Inc.	Florida
UHS of D.C., Inc.	Delaware
UHS of Delaware, Inc.	Delaware
UHS of Eagle Pass, Inc.	Delaware
UHS of Fairmount, Inc.	Delaware
UHS of Fayetteville, Inc.	Arkansas
UHS of Florida, Inc.	Florida
UHS of Fuller, Inc.	Massachusetts
UHS of Georgia Holdings, Inc.	Delaware
UHS of Georgia, Inc.	Delaware
UHS of Greenville, Inc.	Delaware
UHS of Hampton Learning Center, Inc.	New Jersey

Name of Subsidiary	Jurisdiction of Incorporation
UHS of Hampton, Inc.	New Jersey
UHS of Hartgrove, Inc.	Illinois
UHS of Lakeside, Inc.	Delaware
UHS of Laurel Heights, L.P.	Delaware
UHS of Manatee, Inc.	Florida
UHS of New Orleans, Inc.	Louisiana
UHS of Odessa, Inc.	Texas
UHS of Oklahoma, Inc.	Oklahoma
UHS of Palmdale, Inc.	Delaware
UHS of Parkwood, Inc.	Delaware
UHS of Peachford, L.P.	Delaware
UHS of Pennsylvania, Inc.	Pennsylvania
UHS of Provo Canyon, Inc.	Delaware
UHS of Puerto Rico, Inc.	Delaware
UHS of Ridge, Inc.	Delaware
UHS of River Parishes, Inc.	Louisiana
UHS of Rockford, Inc.	Delaware
UHS of Talbot, L.P.	Delaware
UHS of Timberlawn, Inc.	Texas
UHS of Waltham, Inc.	Massachusetts
UHS of Westwood Pembroke, Inc.	Massachusetts
UHSMS, Inc.	Delaware
UHSR Corporation	Delaware
Universal Community Behavioral Health, Inc.	Pennsylvania
Universal Health Network, Inc.	Nevada

Name of Subsidiary	Jurisdiction of Incorporation
Universal Health Pennsylvania Properties, Inc.	Pennsylvania
Universal Health Recovery Centers, Inc.	Pennsylvania
Universal Health Services of Cedar Hill, Inc.	Texas
Universal Health Services of Concord, Inc.	California
Universal Health Services of Palmdale, Inc.	Delaware
Universal Health Services of Rancho Springs, Inc.	California
Universal Probation Services, Inc.	Georgia
Universal Treatment Centers, Inc.	Delaware
Valley Health System, L.L.C.	Delaware
Valley Hospital Medical Center, Inc.	Nevada
Valley Surgery Center, L.P.	Delaware
Victoria Regional Medical Center, Inc.	Texas
Vista Diagnostic Center, L.L.C.	Nevada
Wellington Physician Alliances, Inc.	Florida
Wellington Regional Health & Education Foundation, Inc.	Florida
Wellington Regional Medical Center Incorporated	Florida

Exhibit 24

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statements on Forms S-8 (File No. 333-46384), (File No. 33-43276), (File No. 33-49426), (File No. 33-49428), (File No. 33-51671), (File No. 33-56575), (File No. 33-63291), (File No. 333-13453) and (File No. 333-63926), and Form S-3 (File No. 333-46098), (File No. 333-85781) and (File No. 333-59916).

Arthur Andersen LLP

Philadelphia, PA
March 26, 2002

Exhibit 99.1

UNIVERSAL HEALTH SERVICES, INC.

367 South Gulph Road
P.O. Box 61558
King of Prussia, PA 19406-0958

LETTER TO COMMISSION PURSUANT TO TEMPORARY NOTE 3T

March 15, 2002

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0408

Ladies and Gentlemen:

Pursuant to Temporary Note 3T to Article 3 of Regulation S-X, Universal Health Services, Inc. has obtained a letter of representation from Arthur Andersen LLP ("Andersen") stating that the December 31, 2001 audit was subject to their quality control system for the U.S. accounting and auditing practice to provide reasonable assurance that the engagements was conducted in compliance with professional standards, that there was appropriate continuity of Andersen personnel working on the audit and that there was availability of national office consultation on such audit. Availability of personnel at foreign affiliates of Andersen is not relevant to this audit.

Very truly yours,

Universal Health Services, Inc.

/s/ Alan B. Miller

Alan B. Miller
Chairman, Chief Executive Officer and President