FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended June 30, 1998

OR

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

For the transition period from ____________ to __________

Commission file number 0-10454

UNIVERSAL HEALTH SERVICES, INC.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive office) (Zip Code)

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common shares outstanding, as of July 31, 1998:

Class	Shares
Class A	2,058,929
Class B	30,410,054
Class C	207,230
Class D	29,926

UNIVERSAL HEALTH SERVICES, INC.

I N D E X

PART I. FINANCIAL INFORMATION..PAGE NO.

Item 1. Financial Statements

Consolidated Statements of Income -
Three and Six Months Ended June 30, 1998 and 1997...................Three

Condensed Consolidated Balance Sheets - June 30, 1998
and December 31, 1997...Four

Condensed Consolidated Statements of Cash Flows
Six Months Ended June 30, 1998 and 1997..............................Five

Notes to Condensed Consolidated Financial Statements.............Six & Seven

Item 2. Management's Discussion and Analysis of Financial
Condition and Results of Operations........Eight, Nine, Ten, Eleven & Twelve

PART II. OTHER INFORMATION...Thirteen

SIGNATURE..Fourteen

PART I. FINANCIAL INFORMATION

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(000s omitted except per share amounts)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
Net revenues	$ 474,558	$ 343,826	$ 937,675	$ 683,996
Operating charges:				
Operating expenses	195,125	136,412	376,076	266,468
Salaries and wages	165,721	119,138	326,846	238,885
Provision for doubtful accounts	32,990	27,450	70,256	51,113
Depreciation and amortization	26,272	19,815	50,708	38,843
Lease and rental expense	12,172	9,307	23,577	18,428
Interest expense, net	7,083	5,384	13,390	10,340
	439,363	317,506	860,853	624,077
Income before minority interests and income taxes	35,195	26,320	76,822	59,919
Minority interests in earnings of consolidated entities	3,526	(147)	5,274	(529)
Income before income taxes	31,669	26,467	71,548	60,448
Provision for income taxes	11,208	9,560	25,437	22,011
Net income	$ 20,461	$ 16,907	$ 46,111	$ 38,437
Earnings per common share - basic	$ 0.63	$ 0.52	$ 1.42	$ 1.19
Earnings per common share - diluted	$ 0.61	$ 0.51	$ 1.38	$ 1.16
Weighted average number of common shares - basic	32,626	32,318	32,571	32,268
Weighted average number of common share equivalents	874	785	834	767
Weighted average number of common shares and equiv. - diluted	33,500	33,103	33,405	33,035

See accompanying notes to these condensed consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(000's omitted)

	JUNE 30, 1998 (UNAUDITED)	DECEMBER 31, 1997
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,704	$ 332
Accounts receivable, net	252,530	180,252
Supplies	36,655	28,214
Deferred income taxes	20,224	11,105
Other current assets	11,292	10,119
Total current assets	323,405	230,022
Property and equipment	1,131,724	950,961
Less: accumulated depreciation	(361,008)	(328,881)
	770,716	622,080
Funds restricted for construction	42,197	41,031
	812,913	663,111
OTHER ASSETS:		
Excess of cost over fair value of net assets acquired	278,700	149,814
Deferred charges	14,686	10,852
Other	29,816	31,550
	323,202	192,216
	$ 1,459,520	$ 1,085,349
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 4,895	$ 5,655
Accounts payable and accrued liabilities	180,968	153,094
Federal and state taxes	-----	1,707
Total current liabilities	185,863	160,456
Other noncurrent liabilities	212,578	125,286
Long-term debt, net of current maturities	418,435	272,466
Deferred income taxes	23,638	534
COMMON STOCKHOLDERS' EQUITY:		
Class A Common Stock, 2,058,929 shares outstanding in 1998, 2,059,929 in 1997	21	21
Class B Common Stock, 30,405,884 shares outstanding in 1998, 30,122,479 in 1997	304	301
Class C Common Stock, 207,230 shares outstanding in 1998, 207,230 in 1997	2	2
Class D Common Stock, 30,170 shares outstanding in 1998, 32,063 in 1997	-----	-----
Capital in excess of par, net of deferred compensation of $327,000 in 1998 and $295,000 in 1997	246,941	200,656
Retained earnings	371,738	325,627
	619,006	526,607
	$ 1,459,520	$ 1,085,349

See accompanying notes to these condensed consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(000s omitted - unaudited)

	SIX MONTHS ENDED JUNE 30, 1998	SIX MONTHS ENDED JUNE 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 46,111	$ 38,437
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	50,708	38,843
Changes in assets & liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	(16,692)	(4,042)
Accrued interest	811	(149)
Accrued and deferred income taxes	(3,208)	(773)
Other working capital accounts	9,590	10,424
Other assets and deferred charges	(4,605)	(4,555)
Other	3,866	5,118
Accrued insurance expense, net of commercial premiums paid	4,201	8,874
Payments made in settlement of self-insurance claims	(12,551)	(12,554)
NET CASH PROVIDED BY OPERATING ACTIVITIES	78,231	79,623
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment additions, net	(44,447)	(66,736)
Proceeds received from partial sale transaction, net	11,185	----
Acquisition of business	(186,080)	----
NET CASH USED IN INVESTING ACTIVITIES	(219,342)	(66,736)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Reduction of long-term debt	----	(13,751)
Additional borrowings	142,209	----
Issuance of common stock	1,274	1,198
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	143,483	(12,553)
INCREASE IN CASH AND CASH EQUIVALENTS	2,372	334
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	332	288
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 2,704	$ 622
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 12,579	$ 10,489
Income taxes paid, net of refunds	$ 29,083	$ 22,784

See accompanying notes to these condensed consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) GENERAL

The consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments which, in the opinion of the Company, are necessary to fairly present results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the accompanying disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the financial statements, accounting policies and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1997.

Certain prior year amounts have been reclassified to conform with current year financial statement presentation.

(2) EARNINGS PER SHARE

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings per Share" (SFAS 128). SFAS 128 establishes standards for computing and presenting earnings per share (EPS). Basic earnings per share are based on the weighted average number of common shares outstanding during the year. Diluted earnings per share are based on the weighted average number of common shares outstanding during the year adjusted to give effect to common stock equivalents. The per share amounts for the three and six months ended June 30, 1997 have been restated to conform to SFAS 128.

(3) OTHER LIABILITIES

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

(4) COMMITMENT AND CONTINGENCIES

Under certain agreements, the Company has committed or guaranteed an aggregate of $54 million related principally to the Company's self-insurance programs and as support for various debt instruments and loan guarantees, including a $40 million letter of credit related to the Company's 1997 acquisition of an 80% interest in The George Washington University Hospital.

(5) NEW ACCOUNTING PRONOUNCEMENT

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities". The Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

Statement 133 is effective as of the beginning of fiscal years beginning after June 15, 1999. A company may also implement the Statement as of the beginning of any fiscal quarter after the issuance. Statement 133 cannot be applied retroactively. Statement 133 must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantially modified after December 31, 1997 (and at the company's election, before January 1, 1998).

The Company has not yet quantified the impact of adopting Statement 133 on its financial statements and has not determined the timing of or method of adoption of Statement 133. However, the Statement could increase the volatility in earnings and other comprehensive income.

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

RESULTS OF OPERATIONS

Net revenues increased 38% or $131 million for the three months ended June 30, 1998 and 37% or $254 million for the six months ended June 30, 1998, over the comparable prior year periods. The increase in net revenues during the three and six month periods ended June 30, 1998 as compared to the comparable 1997 periods was due primarily to: (i) the acquisition of an 80% interest in a 501-bed acute care facility during the third quarter of 1997, the opening of a newly constructed 148-bed acute care facility which opened during the fourth quarter of 1997 and the acquisition of three acute care facilities located in Puerto Rico (one of which opened in April, 1998) and one acute care facility located in Las Vegas which were acquired during the first quarter of 1998 ($110 million for the three months ended June 30 and $199 million for the six months ended June 30), and; (ii) revenue growth at acute care and behavioral health care facilities owned during both periods ($12 million for the three months ended June 30 and $38 million for the six months ended June 30).

Earnings before interest, income taxes, depreciation, amortization and lease rental expense (before deducting minority interests in earnings of consolidated entities) ("EBITDAR") increased 33% or $20 million to $81 million for the three months ended June 30, 1998 as compared to $61 million during the three months ended June 30, 1997. For the six months ended June 30, 1998, EBITDAR increased 29% or $37 million to $164 million as compared to $128 million during the six months ended June 30, 1997.

Overall operating margins were 17.0% and 17.7% for the three month periods ended June 30, 1998 and 1997 and 17.5% and 18.6% for the six month periods ended June 30, 1998 and 1997, respectively. The decrease in the Company's overall operating margin during the three and six month periods ended June 30, 1998 as compared to the comparable prior year periods was due primarily to lower operating margins at three of the acute care facilities acquired within the last twelve months (one located in Washington, DC and two located in Puerto Rico) and the opening of three acute care facilities subsequent to the second quarter of 1997 (located in Texas, Nevada and Puerto Rico). The lower operating margin experienced during the second quarter of 1998 was partially due to a delay in Medicare certification (not received until late May, 1998) at an acute care facility located in Puerto Rico which was opened in April, 1998.

ACUTE CARE SERVICES

Net revenues from the Company's acute care hospitals, ambulatory treatment centers and specialized women's health centers accounted for 86% and 84% of consolidated net revenues for the three months ended June 30, 1998 and 1997 and 87% and 84% of consolidated net revenues for the six months ended June 30, 1998 and 1997, respectively. Net revenues at the Company's acute care facilities owned in both periods increased 3% and 5% during the three and six months ended June 30, 1998 as compared to the comparable prior year periods due primarily to an increase in admissions at these facilities. Inpatient admissions at these facilities increased 4% and 5% for the three and six months ended June 30, 1998, respectively, as compared to the comparable prior year periods. Despite the increase in inpatient admissions, patient days at these facilities decreased 2% during the three months ended June 30, 1998 and remained unchanged during the six months ended June 30, 1998, as compared to the comparable prior year periods, due to a decrease in the average length of stay. The average length of stay decreased 6% to 4.6 days during the three months ended June 30, 1998 as compared to 4.9 days during the three months ended June 30, 1997 and decreased 5% to 4.7 days during the six months ended June 30, 1998 as compared to 5.0 days during the six months ended June 30, 1997.

The decrease in the average length of stay at the Company's facilities was due primarily to improvement in case management of Medicare and Medicaid patients and an increasing shift of patients into managed care plans which generally have lower lengths of stay. In addition to an increase in inpatient admissions, the Company's outpatient activity continues to increase as gross outpatient revenues at acute care facilities owned during both periods increased 12% for the three and six months ended June 30, 1998 as compared to the comparable 1997 periods and comprised 26% of the Company's acute care gross patient revenues for the three and six months ended June 30, 1998 and 1997.

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

BEHAVIORAL HEALTH SERVICES

Net revenues from the Company's behavioral health facilities accounted for 13% and 16% of consolidated net revenues for the three months ended June 30, 1998 and 1997 and 13% and 15% of consolidated net revenues for the six months ended June 30, 1998 and 1997, respectively. Net revenues at the Company's behavioral health facilities owned in both periods increased 8% during the three and six month periods ended June 30, 1998 as compared to the comparable prior year periods due primarily to an increase in inpatient admissions. Inpatient admissions at these facilities increased 19% and 15% during the three and six month periods ended June 30, 1998, respectively, as compared to the comparable prior year periods. Patient days at the Company's behavioral health facilities owned during both periods increased 10% and 8% during the three and six month periods ended June 30, 1998, respectively, as compared to the comparable prior year periods. The average length of stay at the facilities owned in both periods decreased 8% to 11.5 days during the three month period ended June 30, 1998 from 12.4 days in the comparable prior year period and decreased 6% to 11.3 days during the six months ended June 30, 1998 as compared to 12.0 days during the comparable prior year period.

The continued reduction in the average length of stay is a result of changing practices in the delivery of behavioral health services and continued cost containment pressures from payors which includes a greater emphasis on the utilization of outpatient services. Management of the Company has responded to these trends by continuing to develop and market new outpatient treatment programs. The shift to outpatient care is reflected in higher revenues from outpatient services, as gross outpatient revenues at the Company's behavioral health services facilities owned in both periods increased 20% and 15% during the three and six months ended June 30, 1998 as compared to the comparable prior year periods and comprised 21% of behavioral health gross patient revenues for the three and six month periods ended June 30, 1998 as compared to 20% during the three and six month periods ended June 30, 1997.

OTHER OPERATING RESULTS

The Company recorded minority interest expense/(income) in earnings or (losses) of consolidated entities amounting to $3.5 million and ($147,000) for the three months ended June 30, 1998 and 1997 and $5.3 million and ($529,000) for the six month periods ended June 30, 1998 and 1997, respectively. The minority interest expense recorded during the 1998 three and six month periods consists primarily

of the minority ownership's share of the net income of four acute care facilities, three of which are located Las Vegas, Nevada and one located in Washington, DC.

Depreciation and amortization expense increased 33% or $6 million for the three months ended June 30, 1998 and 31% or $12 million for the six months ended June 30, 1998 as compared to the comparable prior year periods, due primarily to the 1997 and 1998 acquisitions mentioned above and the opening of the newly constructed acute care facilities during the third and fourth quarters of 1997.

Interest expense increased 32% or $2 million during the three month period ended June 30, 1998 and 30% or $3 million during the six month period ended June 30, 1998 as compared to the comparable 1997 periods due primarily to the increased borrowings used to partially finance the 1997 and 1998 acquisitions mentioned above.

The effective tax rate was 35.4% and 36.1% for the three months ended June 30, 1998 and 1997, respectively, and 35.6% and 36.4% for the six month periods ended June 30, 1998 and 1997, respectively.

GENERAL TRENDS

An increased proportion of the Company's revenue is derived from fixed payment services, including Medicare and Medicaid which accounted for 46% and 52% of the Company's net patient revenues for the three months ended June 30, 1998 and 1997 and 47% and 51% of the Company's net patient revenues for the six months ended June 30, 1998 and 1997, respectively. The Medicare program reimburses the Company's hospitals primarily based on established rates by a diagnosis related group ("DRG") for acute care hospitals and by cost based formula for behavioral health facilities. Historically, rates paid under Medicare's prospective payment system ("PPS") for inpatient services have increased, however, these increases have been less than cost increases. Pursuant to the terms of The Balanced Budget Act of 1997 (the "1997 Act"), there will be no increases in the rates paid to hospitals for inpatient care through September 30, 1998. The Company expects that the modest rate increases that will take effect on October 1, 1998 will be largely offset by the negative impact of converting reimbursement on skilled nursing facility patients from a cost reimbursed to a prospective payment system and from lower DRG payments on certain patient transfers as mandated by the 1997 Act. Reimbursement for bad debt expense and capital costs as well as other items have been reduced. While the Company is unable to predict what, if any, future health reform legislation may be enacted at the federal or state level, the Company expects continuing pressure to limit expenditures by governmental healthcare programs. Further changes in the Medicare or Medicaid programs and other proposals to limit healthcare spending could have a material adverse impact upon the Company and the healthcare industry.

In Texas, a law has been passed which mandates that the state apply for a waiver from current Medicaid regulations to allow the state to require that certain Medicaid participants be serviced through managed care providers. The Company is unable to predict whether Texas will be granted such a waiver or the effect on the Company's business of such a waiver. Upon meeting certain conditions, and serving a disproportionately high share of Texas' and South Carolina's low income patients, three of the Company's facilities located in Texas and one facility located in South Carolina became eligible and received additional reimbursements from each state's disproportionate share hospital fund. Included in the Company's financial results was an aggregate of $8.6 million and $8.3 million for the three months ended June 30, 1998 and 1997 and $17.2 million and $16.5 million for the six months ended June 30, 1998 and 1997, respectively, received pursuant to the terms of these programs. These programs, which have recently been renewed, are scheduled to terminate in the third quarter of 1999 and the Company cannot predict whether these programs will continue beyond their scheduled termination date. In addition to the Medicare and Medicaid programs, other payors continue to actively negotiate the amounts they will pay for services performed. In general, the Company expects the

percentage of its business from managed care programs, including HMOs and PPOs to grow. The consequent growth in managed care networks and the resulting impact of these networks on the operating results of the Company's facilities vary among the markets in which the Company operates.

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

The Company has undertaken steps to identify areas of concern and potential remedies, prioritize needs, estimate costs and begin work either to repair or replace data processing software and hardware affected by Year 2000 issues. The cost associated with addressing Year 2000 related problems is not expected to be material. However, measurement of the costs has not been completed. The solutions either involve replacement or repair of the affected software, hardware and equipment. Some replacement or upgrade of systems and equipment would take place in the normal course of business. Several systems, key to the Company's operations, have been scheduled to be replaced through vendor supplied systems before Year 2000. The costs of repairing existing systems is expensed as incurred.

The Company presently believes that with modifications to existing software and conversions to new software, the Year 2000 issue will not pose material operational problems for its computer systems. However, if such modifications and conversions are not made, or are not completed timely, the Year 2000 issue could have a material impact on the operations of the Company. Furthermore, the Company has initiated formal communications with its significant suppliers and large payors to determine the extent to which the Company's interface systems are vulnerable to those third parties' failure to remediate their own Year 2000 issues. However, there can be no guarantee that the systems of other companies on which the Company's systems rely will be timely converted and would not have a material adverse effect on the Company's operations.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $78 million and $80 million for the six months ended June 30, 1998 and 1997, respectively. The $2 million decrease during the 1998 six month period as compared to the comparable prior year period was primarily attributable to a $13 million increase in accounts receivable (due primarily to the opening of three acute care facilities subsequent to the second quarter of 1997) and $9 million of other unfavorable net working capital changes partially offset by a $20 million increase in the net income plus the addback of depreciation and amortization expense.

During the first quarter of 1998, the Company completed its acquisition of three acute care hospitals located in Puerto Rico for a combined purchase price of $186 million which was financed with borrowings under the Company's revolving credit facility. Also during the first quarter of 1998, the Company contributed substantially all of the assets, liabilities and operations of Valley Hospital Medical Center, a 417-bed acute care facility, and its newly-constructed Summerlin Hospital Medical Center, a 148-bed acute care facility in exchange for a 72.5% interest in a series of newly-formed limited liability companies ("LLCs"). Quorum Health Group, Inc. ("Quorum") holds the remaining 27.5% interest in the LLCs. Quorum obtained its interest by contributing substantially all of the assets, liabilities and operations of Desert Springs Hospital, a 241-bed acute care facility and $11 million of net cash to the LLCs. As a result of this partial sale transaction, the Company recorded a pre-tax gain of approximately $55 million (approximately $35 million after-tax) that was recorded as a capital contribution to the Company in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 51. The Company does not expect this merger to have a material impact on its 1998 results of operations. Also during the first six months of 1998, the Company spent

approximately $44 million to finance capital expenditures at its existing hospitals as compared to $67 million in the prior year six month period. Included in the capital expenditures for the six months ended June 30, 1997 was $38 million spent on the construction of a new acute care facility located in Summerlin, Nevada and a new acute care facility located in Edinburg, Texas which opened in the third and fourth quarters of 1997.

During the second quarter of 1998, the Company amended its revolving credit agreement to increase the borrowing capacity to $400 million from $300 million. As of June 30, 1998, the Company had approximately $176 million of unused borrowing capacity under the terms of its $400 million revolving credit facility, as amended, which matures in July 2002 and no unused borrowing capacity under the terms of its $75 million commercial paper credit facility.

The Company expects to finance all capital expenditures and acquisitions with a combination of internally generated funds and funds raised from outside sources. Additional funds may be obtained either through refinancing the existing revolving credit agreement, the commercial paper facility or the issuance of securities.

FORWARD-LOOKING STATEMENTS

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

PART II. OTHER INFORMATION

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

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

(a) The following information relates to matters submitted to the stockholders of Universal Health Services, Inc. (the "Company") at the Annual Meeting of Stockholders held on May 20, 1998.

(b) Not applicable.

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

Adoption of the Amendment and Restatement of the Company's 1992 Stock Option Plan

Votes cast in favor	24,562,987
Votes cast against	707,857
Votes abstained	5,656
Broker non-votes	0

Election by Class A & Class C stockholders of one Class II Director, Anthony Pantaleoni:

Votes cast in favor	2,262,229
Votes withheld	0

Election by Class B and Class D stockholders of one Class II Director, Robert H. Hotz:

Votes cast in favor	26,837,805
Votes withheld	437,137

(d) Not applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

10.1 Amendment 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.

27. Financial Data Schedule

(b) Reports on Form 8-K

None

11. Statement re computation of per share earnings is set forth on Page six in Note 2 of the Notes to Condensed Consolidated Financial Statements.

All other items of this Report are inapplicable.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

SIGNATURE

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

Universal Health Services, Inc.
(Registrant)

Date: August 12, 1998

/s/ Kirk E. Gorman

Kirk E. Gorman, Senior Vice President and
Chief Financial Officer

(Principal Financial Officer and
Duly Authorized Officer).

EXHIBIT 10.1

EXECUTION COPY

AMENDMENT NO. 1 TO CREDIT AGREEMENT

AMENDMENT dated as of June 29, 1998 to the Credit Agreement dated as of July 8. 1997 (the "CREDIT AGREEMENT") among UNIVERSAL HEALTH SERVICES, INC. (the "BORROWER"), the BANKS party thereto (the "BANKS") and MORGAN GUARANTY TRUST COMPANY OF NEW YORK, as the Agent (the "AGENT").

W I T N E S S E T H :

WHEREAS, as contemplated by Section 2.19 of the Credit Agreement, the Borrower wished to increase the aggregate amount of the Commitments by $100,000,000 to an aggregate amount of $400,000,000;

WHEREAS, the Banks listed on the signature pages hereof are willing to increase their respective Commitments to the respective amounts set forth opposite their names on the signature pages hereof, resulting in an aggregate increase in their respective Commitments equal to the $100,000,000 increase requested by the Borrower;

WHEREAS, the parties hereto desire to enter into this Amendment to serve as the agreement contemplated by Section 2.19(d)(i) to memorialize such increase in the Commitments, and this Amendment is satisfactory in form and substance to the Agent for such purpose; and

WHEREAS, at the date hereof there are no Loans outstanding under the Agreement;

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1. Defined Terms; References. Unless otherwise specifically defined herein, each term used herein which is defined in the Credit Agreement has the meaning assigned to such term in the Credit Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each similar reference and each reference to "this Agreement" and each similar reference contained in the Credit Agreement shall, after this Amendment becomes effective, refer to the Credit Agreement as amended hereby. The term "Notes" defined in the Agreement shall include from and after the date hereof the New Notes (as defined below).

SECTION 2. Increases in Commitments. With effect from and including the Amendment Effective Date (as defined in Section 6 below), (i) each Person listed on the signature pages hereof which is not a party to the Agreement (a "New Bank") shall become a Bank party to the Agreement and (ii) the Commitment of each Bank listed on the signature pages hereof shall be the amount set forth opposite its name on the signature pages hereof, as such amount may be changed from time to time subsequent to the Amendment Effective Date pursuant to Section 2.09, 2.11 or 2.06(c) of the Credit Agreement. Any Bank whose Commitment is changed to zero shall upon such effectiveness cease to be a Bank party to the Agreement, and all accrued fees and other amounts payable under the Agreement for the account of such Bank shall be due and payable on such date; provided that the provisions of Section 8.03 and 9.03 of the Agreement shall continue to inure to the benefit of such Bank.

SECTION 3. Representations of Borrower. The Borrower represents and warrants that (i) the representations and warranties of the Borrower set forth in Article 4 of the Credit Agreement will be true on and as of the Amendment Effective Date and (ii) no Default will have occurred and be continuing on such date.

SECTION 4 Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 5 Counterparts. This Amendment 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.

SECTION 6 Effectiveness. This Amendment shall become effective as of the date hereof on the date when the following conditions are met (the "AMENDMENT EFFECTIVE DATE"):

(a) the Agent shall have received from each of the Borrower and the Banks listed on the signature pages hereof a counterpart hereof signed by such party or facsimile or other written confirmation (in form satisfactory to the Agent) that such party has signed a counterpart hereof;

(b) the Agent shall have received a duly executed Note for the New Bank (a "New Note"), dated on or before date of effectiveness hereof and otherwise in compliance with Section 2.05 of the Agreement;

(c) the Agent shall have received an opinion of the General Counsel of the Borrower, substantially to the effect of paragraphs 2 and 3 of Exhibit E-2 to the Credit Agreement with reference to this Amendment and the Credit Agreement as amended hereby; and

(d) the Agent shall have received a certified copy of action by the Board of Directors of the Borrower authorizing the increase in the aggregate amount of the Commitments effected pursuant to this Amendment.

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

UNIVERSAL HEALTH SERVICES, INC

By /s/ Kirk E. Gorman

Title: Senior Vice President and
Chief Financial Officer

Commitments
- -----------

Commitments	Lender
$68,000,000	MORGAN GUARANTY TRUST COMPANY OF NEW YORK By --------------------------------------- Title:
$57,000,000	BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION By --------------------------------------- Title:
$57,000,000	NATIONSBANK, N.A By --------------------------------------- Title:
$45,000,000	FIRST UNION NATIONAL BANK By --------------------------------------- Title:
$43,000,000	THE CHASE MANHATTAN BANK By --------------------------------------- Title:

$30,000,000	PNC BANK, N.A. By --------------------------------------- Title:
$25,000,000	BANCO POPULAR DE PUERTO RICO By --------------------------------------- Title: By --------------------------------------- Title:
$25,000,000	THE FIRST NATIONAL BANK, OF CHICAGO By --------------------------------------- Title:
$25,000,000	FLEET NATIONAL BANK By --------------------------------------- Title:
$25,000,000	MELLON BANK, N.A. By --------------------------------------- Title:
$-0-	CORESTATES BANK, N.A. By --------------------------------------- Title:

5
0000352915
UNIVERSAL HEALTH SERVICES, INC.
1,000
U.S. DOLLARS

3-MOS
DEC-31-1998
JAN-01-1998
JUN-30-1998
1
2,704
0
252,530
0
36,655
323,405
1,173,921
361,008
1,459,520
185,863
418,435
0
0
327
618,679
1,459,520
0
937,675
0
702,922
79,559
70,256
13,390
71,548
25,437
46,111
0
0
0
46,111
1.42
1.38