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 September 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 October 31, 1998:

Class	Shares
Class A	2,058,929
Class B	30,449,993
Class C	207,230
Class D	29,220

UNIVERSAL HEALTH SERVICES, INC.

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PART I. FINANCIAL INFORMATION

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(000s omitted except per share amounts)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
Net revenues	$ 456,090	$ 362,377	$ 1,393,765	$ 1,046,373
Operating charges:				
Operating expenses	192,055	147,992	568,131	414,460
Salaries and wages	165,547	129,489	492,393	368,374
Provision for doubtful accounts	31,116	29,080	101,372	80,193
Depreciation and amortization	27,160	20,055	77,868	58,898
Lease and rental expense	11,232	10,041	34,809	28,469
Interest expense, net	7,139	4,566	20,529	14,906
	434,249	341,223	1,295,102	965,300
Income before minority interests and income taxes	21,841	21,154	98,663	81,073
Minority interests in earnings (losses) of consolidated entities	1,413	(725)	6,687	(1,254)
Income before income taxes	20,428	21,879	91,976	82,327
Provision for income taxes	7,035	8,060	32,472	30,071
Net income	$ 13,393	$ 13,819	$ 59,504	$ 52,256
Earnings per common share - basic	$ 0.41	$ 0.43	$ 1.83	$ 1.62
Earnings per common share - diluted	$ 0.40	$ 0.42	$ 1.78	$ 1.58
Weighted average number of common shares - basic	32,643	32,346	32,595	32,294
Weighted average number of common share equivalents	690	782	786	772
Weighted average number of common shares and equiv. - diluted	33,333	33,128	33,381	33,066

See accompanying notes to these condensed consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(000s omitted)

	SEPTEMBER 30, 1998 (UNAUDITED)	DECEMBER 31, 1997
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,340	$ 332
Accounts receivable, net	265,163	180,252
Supplies	37,283	28,214
Deferred income taxes	17,968	11,105
Other current assets	12,153	10,119
Total current assets	335,907	230,022
Property and equipment	1,156,881	950,961
Less: accumulated depreciation	(380,943)	(328,881)
	775,938	622,080
Funds restricted for construction	42,803	41,031
	818,741	663,111
OTHER ASSETS:		
Excess of cost over fair value of net assets acquired	274,569	149,814
Deferred charges	13,024	10,852
Other	26,851	31,550
	314,444	192,216
	$ 1,469,092	$ 1,085,349
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 4,526	$ 5,655
Accounts payable and accrued liabilities	196,696	153,094
Federal and state taxes	--	1,707
Total current liabilities	201,222	160,456
Other noncurrent liabilities	209,961	125,286
Long-term debt, net of current maturities	405,971	272,466
Deferred income taxes	25,390	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, 30,306,715 shares outstanding in 1998, 30,122,479 in 1997	303	301
Class C Common Stock, 207,230 shares outstanding in 1998, 207,230 in 1997	2	2
Class D Common Stock, 29,269 shares outstanding in 1998, 32,063 in 1997	--	--
Capital in excess of par, net of deferred compensation of $238 in 1998 and $295 in 1997	241,091	200,656
Retained earnings	385,131	325,627
	626,548	526,607
	$ 1,469,092	$ 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)

	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1997
Cash Flows from Operating Activities:		
Net income	$ 59,504	$ 52,256
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	77,868	58,898
Changes in assets & liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	(28,875)	(1,148)
Accrued interest	(2,024)	(3,179)
Accrued and deferred income taxes	971	7,363
Other working capital accounts	25,765	34,506
Other assets and deferred charges	(497)	(464)
Other	1,363	5,088
Accrued insurance expense, net of commercial premiums paid	7,688	14,515
Payments made in settlement of self-insurance claims	(15,191)	(13,652)
Net cash provided by operating activities	126,572	154,183
Cash Flows from Investing Activities:		
Property and equipment additions, net	(71,055)	(103,703)
Proceeds received from partial sale transaction, net	10,955	--
Acquisition of business	(188,280)	(3,218)
Funds restricted for construction related to acquisition of business	--	(40,000)
Proceeds received from sale or disposition of assets	--	4,000
Net cash used in investing activities	(248,380)	(142,921)
Cash Flows from Financing Activities:		
Reduction of long-term debt	--	(5,016)
Additional borrowings	129,376	--
Issuance of common stock	1,487	1,385
Repurchase of common shares	(6,047)	--
Net cash provided by (used in) financing activities	124,816	(3,631)
Increase in cash and cash equivalents	3,008	7,631
Cash and cash equivalents, Beginning of Period	332	288
Cash and cash equivalents, End of Period	$ 3,340	$ 7,919
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 22,553	$ 18,085
Income taxes paid, net of refunds	$ 32,025	$ 22,708

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 nine months ended September 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. Prior to January, 1998, most of the Company's subsidiaries were self-insured for professional and general liability claims up to $5 million per occurrence, with excess coverage maintained up to $100 million with major insurance carriers.

(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 26% or $94 million for the three months ended September 30, 1998 and 33% or $347 million for the nine months ended September 30, 1998, over the comparable prior year periods. The increase in net revenues during the three and nine month periods ended September 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 ($81 million for the three months ended September 30 and $280 million for the nine months ended September 30), and; (ii) revenue growth at the behavioral health care facilities owned during both quarters ended September 30, 1998 and 1997 ($4 million) and revenue growth at acute care and behavioral health care facilities owned during both nine month periods ended September 30, 1998 and 1997 ($41 million).

During the third quarter of 1998, the Company suffered property damage and curtailed business at its three hospitals in Puerto Rico and its four hospitals in Louisiana as a result of Hurricane Georges. As a result of the Hurricane, the Company incurred an estimated adverse pre-tax financial effect of $5.5 million. The Company can not at this time estimate how much of this expense will be recovered from its property and business interruption insurance policies. All electrical power and water service has been restored to all of these hospitals and each have resumed normal operations.

Including the estimated adverse financial effects of Hurricane Georges, earnings before interest, income taxes, depreciation, amortization and lease rental expense (before deducting minority interests in earnings of consolidated entities) ("EBITDAR") increased 21% or $11 million to $67 million for the three months ended September 30, 1998 as compared to $56 million during the three months ended September 30, 1997. For the nine months ended September 30, 1998, EBITDAR increased 27% or $49 million to $232 million as compared to $183 million during the nine months ended September 30, 1997.

Excluding the estimated adverse financial effects of Hurricane Georges, earnings before interest, income taxes, depreciation, amortization and lease rental expense (before deducting minority interests in earnings of consolidated entities) increased 31% or $17 million to $73 million for the three months ended September 30, 1998 and 29% or $54 million to $237 million for the nine months ended September 30,1998 over the comparable prior year periods.

Including the estimated adverse financial effects of Hurricane Georges, overall operating margins were 14.8% and 15.4% for the three month periods ended September 30, 1998 and 1997 and 16.6% and 17.5% for the nine month periods ended September 30, 1998 and 1997, respectively. Excluding the estimated adverse financial effects of Hurricane Georges, overall operating margins were 15.9% and 15.4% for the three month periods ended September 30, 1998 and 1997 and 17.0% and 17.5% for the nine month periods ended September 30, 1998 and 1997, respectively.

The decrease in the Company's overall operating margin, excluding the effects of Hurricane Georges, during the nine month period ended September 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).

ACUTE CARE SERVICES

Net revenues from the Company's acute care hospitals, ambulatory treatment centers and specialized women's health centers accounted for 87% and 85% of consolidated net revenues for the three and nine month periods ended September 30, 1998 and 1997, respectively. Net revenues at the Company's acute care facilities owned in both periods remained relatively unchanged during the three months ended September 30, 1998 as compared to the comparable prior year period. During the nine month periods ended September 30, 1998 and 1997, net revenues at the Company's acute care facilities owned in both periods increased 3% during the 1998 period as compared to the comparable prior year period. Inpatient admissions at these facilities increased 3% and 4% for the three and nine months ended September 30, 1998, respectively, as compared to the comparable prior year periods. Patient days at these facilities remained unchanged during the three and nine month periods ended September 30, 1998 as compared to the comparable prior year periods. The average length of stay at these facilities decreased 3% to 4.6 days during the three month period ended September 30, 1998 as compared to 4.7 days during the 1997 third quarter and decreased 4% to 4.7 days during the nine month period ended September 30, 1998 as compared to 4.9 days in the comparable prior year period.

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 nine months ended September 30, 1998 as compared to the comparable 1997 periods and comprised 28% and 27% of the Company's acute care gross patient revenues for the three and nine months ended September 30, 1998, respectively, and 27% and 26% of the Company's acute care gross patient revenues for the three and nine month periods ended September 30, 1997, respectively.

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 provider 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 14% of consolidated net revenues during the three month periods ended September 30, 1998 and 1997 and 13% and 15% of consolidated net revenues for the nine months ended September 30, 1998 and 1997, respectively. Net revenues at the Company's behavioral health facilities owned in both periods increased 8% and 9% during the three and nine month periods ended September 30, 1998, respectively, as compared to the comparable prior year periods due primarily to an increase in inpatient admissions. Inpatient admissions at these facilities increased 18% and 16% during the three and nine month periods ended September 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 nine month periods ended September 30, 1998, respectively, as compared to the comparable prior year periods. The average length of stay at the facilities owned in both periods decreased 7% to 11.0 days during the three month period ended

September 30, 1998 from 11.8 days in the comparable prior year period and decreased 6% to 11.2 days during the nine months ended September 30, 1998 as compared to 11.9 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 18% and 16% during the three and nine months ended September 30, 1998 as compared to the comparable prior year periods and comprised 20% of behavioral health gross patient revenues for the three and nine month periods ended September 30, 1998 as compared to 19% for the three and nine month periods ended September 30, 1997.

OTHER OPERATING RESULTS

The Company recorded minority interest expense/(income) in earnings or (losses) of consolidated entities amounting to $1.4 million and ($725,000) for the three months ended September 30, 1998 and 1997 and $6.7 million and ($1.3 million) for the nine month periods ended September 30, 1998 and 1997, respectively. The minority interest expense recorded during the 1998 three and nine month periods consists primarily of the minority ownership's share of the net income of four acute care facilities, three of which are located in Las Vegas, Nevada and one located in Washington, DC.

Depreciation and amortization expense increased 35% or $7 million for the three months ended September 30, 1998 and 32% or $19 million for the nine months ended September 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 56% or $3 million during the three month period ended September 30, 1998 and 38% or $6 million during the nine month period ended September 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 34.4% and 36.8% for the three months ended September 30, 1998 and 1997, respectively, and 35.3% and 36.5% for the nine month periods ended September 30, 1998 and 1997, respectively. The reduction in the effective tax rate during the 1998 periods as compared to the comparable prior year periods was due to a reduction in the effective state income tax rate and benefits related to wage tax credits.

GENERAL TRENDS

An increased proportion of the Company's revenue is derived from fixed payment services, including Medicare and Medicaid which accounted for 45% and 49% of the Company's net patient revenues for the three months ended September 30, 1998 and 1997 and 45% and 50% of the Company's net patient revenues for the nine months ended September 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 were no increases in the rates paid to hospitals for inpatient care through September 30, 1998. The Company expects that the modest rate

increases that went into 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 $9.2 million and $8.3 million for the three months ended September 30, 1998 and 1997 and $26.4 million and $24.7 million for the nine months ended September 30, 1998 and 1997, respectively, received pursuant to the terms of these programs. These programs 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.

YEAR 2000 ISSUE

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. The Company's computer programs, certain building infrastructure components (including elevators, alarm systems and certain HVAC systems) and certain computer aided medical equipment that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruption of business 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 Company expects to complete the assessment phase of its Year 2000 analysis by the first quarter of 1999. The Company believes that Year 2000 related remediation costs incurred through September 30, 1998 have not had a material impact on its results of operations. However, the Company is not able to reasonably estimate the total costs to be incurred for completion of its Year 2000 evaluation at this time since measurement of the costs has not yet 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 adverse impact on the operations of the Company.

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $127 million and $154 million for the nine months ended September 30, 1998 and 1997, respectively. The $27 million decrease during the 1998 nine month period as compared to the comparable prior year period was attributable to a $29 million increase in accounts receivable due primarily to the opening of three acute care facilities subsequent to the second quarter of 1997 and a delay in payments due from certain managed care providers. The Company received approximately $5 million of the past due managed care payments in early October, 1998. Net income plus the addback of depreciation and amortization expense increased $26 million during the nine months ended September 30, 1998 as compared to the comparable prior year period. This favorable change in cash provided by operating activities was offset by a $10 million increase in income tax payments, a $7 million unfavorable change in accrued insurance expense, net of commercial premiums paid and $7 million of other net unfavorable working capital changes. The unfavorable change in accrued insurance expense, net of commercial premiums paid, was due to the January, 1998 purchase of commercially insured general and professional liability policies at most of the Company's subsidiaries. These policies provide for coverage in excess of $1 million per occurrence, with an average annual aggregate of $4 million through 2001. Prior to January, 1998, most of the Company's subsidiaries were self-insured for professional and general liability claims up to $5 million per occurrence, with excess coverage maintained up to $100 million with major insurance carriers.

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 nine months of 1998, the Company spent approximately $71 million to finance capital expenditures at its existing hospitals as compared to $104 million in the prior year nine month period. Included in the capital expenditures for the nine months ended September 30, 1997 was $56 million spent on the construction of a new acute care facilities located in Edinburg, Texas and Summerlin, Nevada which opened in the third and fourth quarters of 1997, respectively.

During the third quarter of 1998, the Company amended its commercial paper credit facility to increase the borrowing capacity to $100 million from $75 million. As of September 30, 1998, the Company had $20 million of unused borrowing capacity under the terms of its commercial paper credit facility, as amended, and $192 million of unused borrowing capacity under the terms of its revolving credit facility which matures in July 2002.

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 services by government programs, including Medicare or Medicaid or other third party payers; industry capacity; demographic changes; existing laws and government regulations and changes in or failure to comply with laws and governmental regulations; the ability to enter into managed care provider agreements on acceptable terms; liability and other claims asserted against the Company; competition; the loss of any significant customers; technological and pharmaceutical improvements that increase the cost of providing, or reduce the demand for healthcare; the ability to attract and retain qualified personnel, including physicians; the ability of the Company to successfully integrate its recent acquisitions; the Company's ability to finance growth on favorable terms; the impact of Year 2000 issues; and, other factors referenced in the Company's 1997 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.

PART II. OTHER INFORMATION

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

ITEM 5. OTHER INFORMATION

The following information updates disclosures previously included in the Company's Annual Report on Form 10-K for the year ended December 31, 1997. Approximately 1,200 of the Company's employees at six of its hospitals are unionized. At Valley Hospital, unionized employees belong to the Culinary Workers and Bartenders Union and the International Union of Operating Engineers. Registered nurses at Auburn Regional Medical Center located in Washington State, are represented by the United Staff Nurses Union, the technical employees are represented by the United Food and Commercial Workers, and the service employees are represented by the Service Employees International Union. At George Washington University Hospital, unionized employees are represented by the Service Employees International Union and the Hospital Police Association. Nurses at Desert Springs Hospital are represented by the Service Employees International Union. The registered nurses, licensed practical nurses, certain technicians and therapists, and housekeeping employees at HRI Hospital in Boston are represented by the Service Employees International Union. The Company believes that its relations with its employees are satisfactory.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

10.1 Amendment dated as August 31, 1998, to Sale and Servicing Agreements dated as of various dates between each hospital company and UHS Receivables Corp.

10.2 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.

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.

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: November 11, 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

AMENDMENT NO. 2 TO SALE AND SERVICING AGREEMENT

AMENDMENT dated as of August 31, 1998 (this "Amendment"), to Sale and Servicing Agreements dated as of various dates (as amended, supplemented or otherwise modified from time to time, the "Sale and Servicing Agreement"), between each hospital company signing a counterpart of this Amendment (together with its successors and assigns, the "Hospital") and UHS Receivables Corp., a Delaware corporation (together with its successors and assigns, "Finco").

W I T N E S S E T H :

WHEREAS, the Hospital and Finco are party to a Sale and Servicing Agreement; and

WHEREAS, the Hospital and Finco wish to amend the Sale and Servicing Agreement to provide for a change in the Definitions List incorporated by reference into the Sale and Servicing Agreement;

NOW THEREFORE, the parties hereto agree as follows:

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

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

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

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

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

IN WITNESS WHEREOF, each of the Hospital and Finco have caused this Amendment to be duly executed and delivered by its duly authorized officer on the date first above written.

NORTHWEST TEXAS HEALTHCARE SYSTEM, INC.
SUMMERLIN HOSPITAL MEDICAL CENTER, LLC

VALLEY HEALTH SYSTEM, LLC
d/b/a Desert Springs Hospital
d/b/a Valley Hospital Medical Center
AIKEN REGIONAL MEDICAL CENTERS, INC.
UHS OF NEW ORLEANS, INC.
CHALMETTE MEDICAL CENTER, INC.
AUBURN REGIONAL MEDICAL CENTER, INC.
UHS OF BELMONT, INC.
UHS OF RIVER PARISHES, INC.
DOCTORS HOSPITAL OF SHREVEPORT, INC.
INLAND VALLEY REGIONAL MEDICAL CENTER, INC.
VICTORIA REGIONAL MEDICAL CENTER, INC.
WELLINGTON REGIONAL MEDICAL CENTER
INCORPORATED

By:__________________________________
Kirk E. Gorman
Treasurer

MANATEE MEMORIAL HOSPITAL, L.P.
By: UHS of Manatee, Inc.
General Partner

By:__________________________
Kirk E. Gorman
Treasurer

NORTHERN NEVADA MEDICAL CENTER, L.P. (f/k/a
Sparks Reno Partnership L.P.)
By: Sparks Family Hospital, Inc.,
General Partner

By:___________________________
Kirk E. Gorman
Treasurer

MCALLEN MEDICAL CENTER L.P.
d/b/a Edinburg Hospital
d/b/a McAllen Medical Center
By: McAllen Medical Center, Inc.
General Partner

By:__________________________
Kirk E. Gorman
Treasurer

UHS RECEIVABLES CORP.

By:___________________________________
Cheryl K. Ramagano
Vice President and Treasurer

The undersigned hereby consents to this Amendment and agrees that the Guaranty shall remain in full force and effect notwithstanding the changes effected by this Amendment.

UNIVERSAL HEALTH SERVICES, INC

By:___________________________________
Kirk E. Gorman
Treasurer

EXHIBIT 10.2

AGREEMENT

AGREEMENT, dated as of August 31, 1998 (this "Agreement"), by and among each hospital company signatory hereto (together with its successors and assigns, the "Withdrawing Hospital"), UHS Receivables Corp., a Delaware corporation (together with its successors and assigns, "Finco"), Sheffield Receivables Corporation ("Sheffield") and U.S. Bank National Association, formerly known as First Bank National Association, as Trustee (the "Trustee").

W I T N E S S E T H :

WHEREAS, Finco has purchased the Receivables of each Withdrawing Hospital pursuant to Sale and Servicing Agreements dated as of various dates (the "Prior Sale and Servicing Agreements" and all capitalized terms used without definition herein shall have the meanings set forth in or incorporated by reference into the Prior Sale and Servicing Agreement);

WHEREAS, the parties wish to terminate the Prior Sale and Servicing Agreement, and in connection therewith the Withdrawing Hospital wishes to repurchase from Finco, and Finco wishes to resell to the Withdrawing Hospital, all of the Hospital's Receivables and all related Transferred Property;

WHEREAS, Finco is purchasing the Receivables of certain other hospitals pursuant to Sale and Servicing Agreements, dated as of the date hereof, between Finco and each of Northwest Texas Healthcare System, Inc., McAllen Medical Center L.P., Summerlin Hospital Medical Center, LLC and Valley Health System, LLC (the "1998 Sale Agreements") and adding such Receivables to its credit facility with Sheffield pursuant to the Pooling Agreement, dated as of November 16, 1993, as amended, among Finco, Sheffield and the Trustee (the "Pooling Agreement");

NOW THEREFORE, the parties hereto agree as follows:

1. The Prior Sale and Servicing Agreement between each Withdrawing Hospital and Finco is hereby terminated effective as of 12:01 a.m. _____________, 1998 (the "Effective Date"), and shall have no further force or effect following the Effective Date; provided, however, that (a) all representations and warranties of the Withdrawing Hospital and Finco under the respective Prior Sale and Servicing Agreements shall survive the execution and delivery of this Agreement, (b) all of the rights and obligations of the parties under Article VII (Indemnification and Expenses) of the Prior Sale and Servicing Agreement shall survive such termination.

2. Finco does hereby sell, assign, transfer, and convey to each Withdrawing Hospital all of its right, title, and interest of Finco as of the Effective Date in and to the Receivables originated by such Withdrawing Hospital and the related Transferred Property, together with all Collections received after the Effective Date in respect of such Receivables.

3. In consideration for the sale of the Receivables and the related Transferred Property, the Withdrawing Hospital hereby agrees to pay Finco the amount set forth opposite its name on

Exhibit A hereto, representing the outstanding balance of the Receivables and the related Transferred Property as of the Effective Date.

4. Finco hereby releases its security interest in the Receivables and the related Transferred Property.

5. Finco represents and warrants to Sheffield and the Trustee that upon giving effect to the 1998 Sale Agreements and this Agreement, it will be in compliance with the conditions to payments set forth in Section 3.2 of the Pooling Agreement.

6. Sheffield and the Trustee hereby consent to the termination of the Prior Sale and Servicing Agreements and the transfer of the applicable Receivables from Finco to each Withdrawing Hospital.

7. Finco, Sheffield and the Trustee agree to do such further acts and things and to execute and deliver Uniform Commercial Code financing and termination statements and such additional assignments, agreements, powers and instruments as are required by Finco or the Withdrawing Hospital to carry into effect the purposes of this Agreement or to better assure and confirm unto the Withdrawing Hospital its rights, powers and remedies hereunder.

8. This Agreement shall be binding upon, and inure to the benefit of, the parties and their respective heirs, personal representatives, successors and assigns.

9. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New York, regardless of the laws that might otherwise govern under applicable principles of law.

10. This Agreement may be signed in two or more counterparts with the same effect as if the signatures to each counterpart were upon a single instrument, and all such counterparts together shall be deemed an original of this Agreement.

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

THE ARBOUR, INC.
THE BRIDGEWAY, INC.
DEL AMO HOSPITAL, INC.
FOREST VIEW PSYCHIATRIC HOSPITAL, INC.
UHS OF FULLER, INC.
HRI HOSPITAL, INC.
UHS RECOVERY FOUNDATION, INC.
LA AMISTAD RESIDENTIAL TREATMENT CENTER, INC.
MERIDELL ACHIEVEMENT CENTER, INC.
THE PAVILION FOUNDATION
RIVER OAKS, INC.
TURNING POINT CARE CENTER, INC.

By:___________________________________
Kirk E. Gorman
Treasurer

UHS RECEIVABLES CORP.

By:___________________________________
Cheryl Ramagano
Vice President and Treasurer

SHEFFIELD RECEIVABLES CORPORATION

By:___________________________________

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

By:___________________________________

EXHIBIT A

REPURCHASE PRICE OF RECEIVABLES

Hospital	Amount
The Arbour, Inc.	$
The Bridgeway, Inc.	$
Del Amo Hospital, Inc.	$
Forest View Psychiatric Hospital, Inc.	$
UHS of Fuller, Inc.	$
HRI Hospital, Inc.	$
UHS Recovery Foundation, Inc.	$
La Amistad Residential Treatment Center, Inc.	$
Meridell Achievement Center, Inc.	$
The Pavilion Foundation	$
River Oaks, Inc.	$
Turning Point Care Center, Inc.	$

5
1,000
U.S. DOLLARS

9-MOS
DEC-31-1998
JAN-01-1998
SEP-30-1998
1
3,340
0
265,163
0
37,283
335,907
1,199,684
380,943
1,469,092
201,222
405,971
0
0
326
626,222
1,469,092
0
1,393,765
0
1,060,524
119,364
101,372
20,529
91,976
32,472
59,504
0
0
0
59,504
1.83
1.78