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, 1996

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NO. 0-10454

UNIVERSAL HEALTH SERVICES, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	23-2077891
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)
UNIVERSAL CORPORATE CENTER 367 SOUTH GULPH ROAD P.O. BOX 61558 KING OF PRUSSIA, PENNSYLVANIA	
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	19406-0958 (ZIP CODE)

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

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

TITLE OF EACH CLASS	NAME OF 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. [X]

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, 1997, was 2,060,929, 29,876,737, 207,230, and 36,678, respectively.

The aggregate market value of voting stock held by non-affiliates at January 31, 1997 was $865,824,029. (For purpose of this calculation, it was assumed that Class A, Class C, and Class D Common Stock, which are not traded but are convertible share-for-share into Class B Common Stock, have the same market value as Class B Common Stock.)

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's definitive proxy statement for its 1997 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 1996 (incorporated by reference under Part III).

PART I

ITEM 1. BUSINESS

The principal business of Universal Health Services, Inc. (together with its subsidiaries, the "Company") is owning and operating acute care hospitals, behavioral health centers, ambulatory surgery centers and radiation oncology centers. Presently, the Company operates 35 hospitals, consisting of 14 acute care hospitals, 20 behavioral health centers, and one women's center, in Arkansas, California, Florida, Georgia, Illinois, Louisiana, Massachusetts, Michigan, Missouri, Nevada, Oklahoma, Pennsylvania, South Carolina, Texas and Washington. The Company, as part of its Ambulatory Treatment Centers Division, owns outright, or in partnership with physicians, and operates or manages 27 surgery and radiation oncology centers located in 15 states.

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

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

The Company is involved in continual development activities. Applications to state health planning agencies to add new services in existing hospitals are currently on file in several states which require certificates of need (e.g., Georgia and Illinois). 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 1996, the Company proceeded with its development of new facilities and consummated a number of acquisitions. In January 1996, the Company broke ground on a new $24 million 130-bed acute care hospital, Edinburg Regional Medical Center, in Edinburg, Texas, which is scheduled to open in July 1997. The development of this new hospital will enable the Company to enhance its presence in McAllen, where it currently operates the 490-bed McAllen Medical Center.

During 1996, the Company, with the participation of Howard Hughes Corporation, continued the construction of a medical complex located in Summerlin, Nevada, in western Las Vegas. The medical complex consists of a 149-bed acute care facility which is scheduled to open during the fourth quarter of 1997; and an outpatient surgery center, medical office building and a radiation therapy center (all of which opened during the fourth quarter of 1996).

In March 1996, the Company opened the first of its Renaissance Centers for Women, the Renaissance Women's Center of Edmond, in Edmond, Oklahoma. Both the Renaissance Women's Center of Austin located in Austin, Texas, and the Lakeside Women's Center located in Oklahoma City, Oklahoma, are scheduled to open in September 1997. The Company owns various equity interests in the limited liability companies and limited partnerships which own and operate these facilities.

In May 1996, the Company acquired substantially all of the assets and operations of the Northwest Texas Healthcare System, a 357-bed medical complex located in Amarillo, Texas, for $126 million in cash.

In June 1996, the Company acquired from First Hospital Corporation, for $39 million, four behavioral health centers located in Pennsylvania: The Horsham Clinic in Ambler; Clarion Psychiatric Center in Clarion; The Meadows Psychiatric Center in Centre Hall; and Roxbury Treatment Center in Shippensburg. This acquisition also included management contracts for seven other behavioral health centers and 33 acres of land adjacent to the Company's Wellington Regional Medical Center.

In August 1996, the Company acquired the Timberlawn Mental Health System, a 164-bed behavioral health facility located in Dallas, Texas, for $3 million.

The Company also selectively expanded its operations at certain of its existing facilities: McAllen Medical Center in McAllen, Texas (1) completed a major expansion to the OB/GYN department, including seven LDRP rooms and two additional surgical suites and (2) completed an expansion of the cardiology department with the addition of a third cardiac catheterization room; Valley Hospital Medical Center in Las Vegas, Nevada opened a new addition to its OB/GYN department, more than doubling the LDRP rooms and adding a new Level II nursery.

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.

	1996	1995	1994	1993	1992
Average Licensed Beds:					
Acute Care Hospitals....	3,018	2,638	2,398	2,548	2,438
Behavioral Health Centers...................	1,565	1,238	1,145	1,134	1,124
Average Available Beds(1):					
Acute Care Hospitals....	2,641	2,340	2,099	2,213	2,114
Behavioral Health Centers...................	1,540	1,223	1,142	1,132	1,115
Admissions:					
Acute Care Hospitals....	111,244	91,298	75,923	73,378	73,395
Behavioral Health Centers...................	22,295	15,329	13,033	11,627	9,929
Average Length of Stay (Days):					
Acute Care Hospitals....	4.9	5.1	5.2	5.4	5.5
Behavioral Health Centers...................	12.4	12.8	13.8	15.8	20.0
Patient Days(2):					
Acute Care Hospitals....	546,237	462,054	394,490	396,135	405,786
Behavioral Health Centers...................	275,667	195,961	179,821	184,263	198,107
Occupancy Rate--Licensed Beds(3):					
Acute Care Hospitals....	50%	48%	45%	43%	45%
Behavioral Health Centers...................	48%	43%	43%	45%	48%
Occupancy Rate--Available Beds(3):					
Acute Care Hospitals....	57%	54%	51%	49%	52%
Behavioral Health Centers...................	49%	44%	43%	45%	49%

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

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

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

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

SOURCES OF REVENUE

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

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

McAllen Medical Center in McAllen, Texas contributed 16% in 1996, 20% in 1995 and 22% in 1994, of the Company's net revenues and 27% in 1996, 37% in 1995 and 38% in 1994, of the Company's operating income (net revenues less operating expenses, salaries and wages, provision for doubtful accounts and allocation of corporate overhead expenses) ("operating income"). Valley Hospital Medical Center in Las Vegas, Nevada contributed 13% in 1996, 17% in 1995 and 19% in 1994, of the Company's net revenues and 17% in 1996, 25% in 1995 and 29% in 1994 of the Company's operating income. Manatee Memorial Hospital in Bradenton, Florida, which was acquired by the Company in August, 1995, contributed 11% in 1996 and 5% in 1995 of the Company's net revenues and 10% in 1996 and 4% in 1995 of the Company's operating income.

The following table shows approximate percentages of net patient revenue derived by the Company's hospitals owned as of December 31, 1996 since their respective dates of acquisition by the Company from third party sources, including the special Medicaid reimbursements received at three of the Company's acute care facilities located in Texas and one in South Carolina totaling $17.8 million in 1996, $12.6 million in 1995, $12.7 million in 1994, $13.5 million in 1993 and $29.8 million in 1992, and from all other sources during the five years ended December 31, 1996.

	PERCENTAGE OF NET PATIENT REVENUES				
	1996	1995	1994	1993	1992
Third Party Payors:					
Medicare	35.1%	34.6%	32.2%	31.5%	30.9%
Medicaid	15.1%	13.5%	13.2%	12.1%	11.0%
TOTAL	50.2%	48.1%	45.4%	43.6%	41.9%
Other Sources (including patients and private insurance carriers)	49.8%	51.9%	54.6%	56.4%	58.1%
	100%	100%	100%	100%	100%

REGULATION AND OTHER FACTORS

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

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

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

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

The regulations provide for the use of a 10-year transition period in which a blend of the old and new capital payment provisions will be utilized. One of two methodologies will apply during the 10-year transition period: if the hospital's hospital-specific capital rate exceeds the federal capital rate, the hospital will be paid on the basis of a "hold harmless" methodology, which is a blend of a portion of old capital and an amount of new capital and a prospectively determined national federal capital rate; or, with limited exceptions, if the hospital-specific rate is below the federal capital rate, the hospital will receive payments based upon a "fully prospective" methodology, which is a blend of the hospital's hospital-specific capital rate and a prospectively determined national federal capital rate. Each hospital's hospital-specific rate was determined based upon allowable capital costs incurred during the "base year", which, for all of the Company's hospitals, is the year ended December 31, 1990. All of the Company's hospitals are paid under the "'hold harmless" methodology except for one hospital, which is paid under the "fully prospective" methodology.

Within certain limits, a hospital can manage its costs, and, to the extent this is done effectively, a hospital may benefit from the DRG system. However, many hospital operating costs are incurred in order to satisfy licensing laws, standards of the Joint Commission on the Accreditation of Healthcare Organizations and quality of care concerns. In addition, hospital costs are affected by the level of patient acuity, occupancy rates and local physician practice patterns, including length of stay judgments and number and type of tests and procedures ordered. A hospital's ability to control or influence these factors which affect costs is, in many cases, limited.

In addition to the trends described above that continue to have an impact on operating results, there are a number of other more general factors affecting the Company's business. In February 1997, the President submitted his fiscal year 1998 budget plan which calls for a $100 billion reduction in the rate of increase in Medicare spending over the next five years and a $138 billion reduction over six years. Included in this proposal are reductions in the future rate of increases to payments made to hospitals. Both Republicans and Democrats appear to be working towards a balanced budget by the year 2002 and it is likely that future budgets will contain certain further reductions in the rate of increase of Medicare and Medicaid spending. The Company cannot predict whether the above proposal or any other proposals will be adopted, and if adopted, no assurance can be given that the implementation of such plans will not have a material adverse effect on the Company's business. The Texas Health & Human Services Commission and the Texas Department of Health are currently seeking a waiver of federal Medicaid state plan requirements from the federal Health Care Financing Administration ("HCFA") in order to institute a statewide Medicaid managed care system. While the statewide waiver request is pending, the Bureau of Managed Care is also establishing limited managed care pilot programs in discrete geographic areas that include only a few counties each. The Bureau of Managed Care is seeking from HCFA a waiver of certain state plan requirements to implement the smaller pilot programs. The Company is unable to predict whether Texas will be granted such a waiver or the effect on the Company's business of such waiver. Upon meeting certain conditions, and serving a disproportionately high share of Texas' and South Carolina's low income patients, three of the Company's facilities located in Texas and one facility located in South Carolina became eligible and received additional reimbursement from each state's disproportionate share hospital fund. Included in the Company's financial results was an aggregate of $17.8 million in 1996, $12.6 million in 1995 and $12.7 million in 1994 received pursuant to the terms of these programs. These programs are scheduled to terminate in the third quarter of 1997 and the Company cannot predict whether these programs will continue beyond their scheduled termination date.

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

Pursuant to Federal legislation, in general, the Federal government is required to match state funds applied to state Medicaid programs. Several states had programs under which certain hospital providers were taxed to generate Medicaid funds which must be matched by the Federal government. New legislation passed by Congress on November 27, 1991, limited each state's use of provider taxes after 1994. State programs involving provider taxes in which UHS' hospitals are participants were in place in Texas, Louisiana, Missouri, and Nevada. The Louisiana, Missouri and Nevada programs expired during 1994 and 1995, and the Texas program is scheduled to expire in August 1997.

Under the Omnibus Budget Reconciliation Act of 1993 ("OBRA"), enacted by Congress in late 1993, and effective January 1, 1995, physicians are precluded from referring Medicare and Medicaid patients for a wide range of services where the physician has an ownership interest or investment interest in, or compensation arrangement with, an entity that provides such services. The legislation includes certain exceptions including, for example, where the referring physician has an ownership interest in a hospital as a whole or an ambulatory surgery center if the physician performs services at the center. In addition, all Medicare providers and suppliers are subject to certain reporting and disclosure requirements.

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

The Company does not anticipate that either the OBRA provisions or the safe harbor regulations will have material adverse effects upon its operations.

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

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

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

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

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

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

MEDICAL STAFF AND EMPLOYEES

The Company's hospitals are staffed by licensed physicians who have been admitted to the medical staff of individual hospitals. With a few exceptions, physicians are not employees of the Company's hospitals and members of the medical staffs of the Company's hospitals also serve on the medical staffs of hospitals not owned by the Company and may terminate their affiliation with the Company's hospitals at any time. Each of the Company's hospitals is managed on a day-to-day basis by a managing director employed by the Company. In addition, a Board of Governors, including members of the hospital's medical staff, governs the medical, professional and ethical practices at each hospital. The Company's facilities had approximately 14,500 employees at December 31, 1996, of whom 10,300 were employed full-time.

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

COMPETITION

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

LIABILITY INSURANCE

Prior to January 1, 1996, most of the Company's subsidiaries were self-insured for general liability risks for claims limited to $5 million per occurrence and for professional liability risks for claims limited to $25 million per occurrence. Effective January 1, 1996, the Company's self-insured subsidiaries purchased general and professional liability insurance coverage for a three year term with a commercial insurer. These policies include coverage for claims in excess of $5 million and limited to $25 million per occurrence and have an unlimited aggregate. Coverage in excess of these limits up to $100 million is maintained with major insurance carriers. Since 1993, certain of the Company's subsidiaries, including one of its larger acute care facilities, have purchased general and professional liability occurrence policies with commercial insurers. These policies include coverage up to $25 million per occurrence for general and professional liability risks. The Company has no assurance that it will be able to maintain such insurance in the future on terms acceptable to the Company.

RELATIONS WITH UNIVERSAL HEALTH REALTY INCOME TRUST

The Company serves as advisor to Universal Health Realty Income Trust ("UHT"), which leases to the Company the real property of 7 facilities operated by the Company. In addition, UHT holds interests in properties owned by unrelated companies. The Company receives a fee for its advisory services based on the value of UHT's assets. In addition, certain of the directors and officers of the Company serve as trustees and officers of UHT. As of January 31, 1997, the Company owned 8% of UHT's outstanding shares and the Company currently has an option to purchase UHT shares in the future at fair market value to enable it to maintain a 5% interest.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

NAME AND AGE	PRESENT POSITION WITH THE COMPANY
Alan B. Miller (59)	Director, Chairman of the Board, President and Chief Executive Officer
Kirk E. Gorman (46)	Senior Vice President and Chief Financial Officer
Richard C. Wright (49)	Vice President
Thomas J. Bender (44)	Vice President
Michael G. Servais (50)	Senior Vice President
Steve G. Filton (39)	Vice President and Controller
Sidney Miller (70)	Director and Secretary

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

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

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

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

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

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

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

ITEM 2. PROPERTIES

EXECUTIVE OFFICES

The Company owns an office building with 68,000 square feet available for use located on 11 acres of land in King of Prussia, Pennsylvania. The Company currently uses approximately 40,000 square feet of office space in the building and the balance is leased to unrelated entities.

FACILITIES

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

ACUTE CARE HOSPITALS

NAME OF FACILITY	LOCATION	NUMBER OF BEDS	OWNERSHIP INTEREST
Aiken Regional Medical Centers	Aiken, South Carolina	225	Owned
Auburn Regional Medical Center	Auburn, Washington	149	Owned
Chalmette Medical Center(1)	Chalmette, Louisiana	118	Leased
Doctors' Hospital of Shreveport(2)	Shreveport, Louisiana	136	Leased
Edinburg Hospital	Edinburg, Texas	112	Owned
Inland Valley Regional Medical Center(1)	Wildomar, California	80	Leased
Manatee Memorial Hospital	Bradenton, Florida	512	Owned
McAllen Medical Center(1)	McAllen, Texas	490	Leased
Northern Nevada Medical Center(3)	Sparks, Nevada	150	Owned
Northwest Texas Healthcare System	Amarillo, Texas	357	Owned
River Parishes Hospitals(4)	LaPlace and Chalmette, Louisiana	216	Leased/Owned
Valley Hospital Medical Center	Las Vegas, Nevada	398	Owned
Victoria Regional Medical Center	Victoria, Texas	147	Owned
Wellington Regional Medical Center(1)	West Palm Beach, Florida	120	Leased

BEHAVIORAL HEALTH CENTERS

NAME OF FACILITY	LOCATION	NUMBER OF BEDS	OWNERSHIP INTEREST
The Arbour Hospital	Boston, Massachusetts	118	Owned
The BridgeWay(1)	North Little Rock, Arkansas	70	Leased
Clarion Psychiatric Center	Clarion, Pennsylvania	52	Owned
Del Amo Hospital	Torrance, California	166	Owned
Forest View Hospital	Grand Rapids, Michigan	62	Owned
Fuller Memorial Hospital	South Attleboro, Massachusetts	82	Owned
Glen Oaks Hospital	Greenville, Texas	54	Owned
The Horsham Clinic	Ambler, Pennsylvania	145	Owned
HRI Hospital	Brookline, Massachusetts	68	Owned
KeyStone Center(5)	Wallingford, Pennsylvania	100	Owned
La Amistad Residential Treatment Center	Maitland, Florida	56	Owned
The Meadows Psychiatric Center	Centre Hall, Pennsylvania	101	Owned
Meridell Achievement Center(1)	Austin, Texas	114	Leased
The Pavilion	Champaign, Illinois	46	Owned
River Crest Hospital	San Angelo, Texas	80	Owned
River Oaks Hospital	New Orleans, Louisiana	126	Owned
Roxbury(5)	Shippensburg, Pennsylvania	75	Owned
Timberlawn Mental Health System	Dallas, Texas	164	Owned
Turning Point Care Center(5)	Moultrie, Georgia	59	Owned
Two Rivers Psychiatric Hospital	Kansas City, Missouri	80	Owned

AMBULATORY SURGERY CENTERS

NAME OF FACILITY(6)	LOCATION
Arkansas Surgery Center of Fayetteville	Fayetteville, Arkansas
Corona Outpatient Surgery Center	Corona, California
Goldring Surgical and Diagnostic Center	Las Vegas, Nevada
M.D. Physicians Surgicenter of Midwest City	Midwest City, Oklahoma
Outpatient Surgical Center of Ponca City	Ponca City, Oklahoma
St. George Surgical Center	St. George, Utah
Seacoast Outpatient Surgical Center	Somersworth, New Hampshire
Surgery Centers of the Desert	Rancho Mirage, California Palm Springs, California
The Surgery Center of Chalmette	Chalmette, Louisiana
Surgery Center of Littleton	Littleton, Colorado
Surgery Center of Springfield	Springfield, Missouri
Surgery Center of Texas	Odessa, Texas
Surgical Center of New Albany	New Albany, Indiana
Surgery Center of Waltham	Waltham, Massachusetts

RADIATION ONCOLOGY CENTERS

NAME OF FACILITY	LOCATION
Auburn Regional Center for Cancer Care	Auburn, Washington
Bluegrass Cancer Center(7)	Frankfort, Kentucky
Bowling Green Radiation Therapy(7)	Bowling Green, Kentucky
Carolina Cancer Center	Aiken, South Carolina
Columbia Radiation Oncology Center	Washington, D.C.
Danville Radiation Therapy Center(7)	Danville, Kentucky
Glasgow Radiation Therapy(7)	Glasgow, Kentucky
Louisville Radiation Oncology Center(7)	Louisville, Kentucky
Madison Radiation Therapy(8)	Madison, Indiana
McAllen Medical Center Cancer Institute	McAllen, Texas
Nevada Radiation Oncology Center--West	Las Vegas, Nevada
Regional Cancer Center at Wellington	West Palm Beach, Florida
Southern Indiana Radiation Therapy(8)	Jeffersonville, Indiana

SPECIALIZED WOMEN'S HEALTH CENTERS

NAME OF FACILITY	LOCATION
Renaissance Women's Center of Edmond	Edmond, Oklahoma

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(1) Real property leased from UHT.
(2) Real property leased with an option to purchase.
(3) General partnership interest in limited partnership.
(4) Includes Chalmette Hospital, a 118-bed rehabilitation facility. The Company owns the LaPlace real property and leases the Chalmette real property from UHT.
(5) Addictive disease facility.
(6) Each facility other than Goldring Surgical and Diagnostic Center and The Surgery Center of Chalmette are 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.
(7) Managed Facility. A partnership, in which the Company is the general partner, owns the real property.
(8) A partnership, in which the Company is the general partner, owns the real property.

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

ITEM 3. LEGAL PROCEEDINGS

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

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

Inapplicable. No matter was submitted during the fourth quarter of the fiscal year ended December 31, 1996 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				
	1996	1995	1994	1993	1992
SUMMARY OF OPERATIONS					
Net revenues...........	$ 1,190,210,000	$ 931,126,000	$ 782,199,000	$ 761,544,000	$ 731,227,000
Net income.............	$ 50,671,000	$ 35,484,000	$ 28,720,000	$ 24,011,000	$ 20,020,000
Net margin.............	4.3%	3.8%	3.7%	3.2%	2.7%
Return on average equity................	13.0%	12.4%	11.8%	11.2%	10.3%
FINANCIAL DATA					
Cash provided by operating activities..	$ 145,256,000	$ 91,749,000	$ 60,624,000	$ 84,640,000	$ 81,731,000
Capital expenditures(1).......	$ 107,630,000	$ 65,695,000	$ 48,652,000	$ 52,690,000	$ 40,554,000
Total assets...........	$ 965,795,000	$ 748,051,000	$ 521,492,000	$ 460,422,000	$ 472,427,000
Long-term borrowings...	$ 275,634,000	$ 237,086,000	$ 85,125,000	$ 75,081,000	$ 114,959,000
Common stockholders' equity................	$ 452,980,000	$ 297,700,000	$ 260,629,000	$ 224,488,000	$ 202,903,000
Percentage of total debt to total capitalization........	38%	45%	26%	26%	37%
OPERATING DATA					
Average licensed beds..	4,583	3,876	3,543	3,682	3,562
Average available beds..................	4,181	3,563	3,241	3,345	3,229
Hospital admissions....	133,539	106,627	88,956	85,005	83,324
Average length of patient stay..........	6.2	6.2	6.5	6.8	7.2
Patient days...........	821,904	658,015	574,311	580,398	603,893
Occupancy rate for licensed beds.........	49%	47%	44%	43%	46%
Occupancy rate for available beds........	54%	51%	49%	48%	51%
PER SHARE DATA					
Net income(2)..........	$ 1.64	$ 1.26	$ 1.01	$ 0.86	$ 0.72
OTHER INFORMATION					
Weighted average number of shares and share equivalents outstanding(2)........	30,848,000	28,158,000	28,778,000	29,638,000	29,940,000
COMMON STOCK PERFORMANCE					
Market price of common stock High-Low, by quarter(3)					
1st....................	$26 7/8-$21 11/16	$ 13 -$11 3/8	$13 5/16-$ 9 5/8	$ 8 -$6 5/16	$ 7 3/4-$6 3/16
2nd....................	$30 1/8-$24 3/8	$14 13/16-$12 7/16	$13 7/16-$11 1/4	$ 8 1/8-$6 1/2	$6 15/16-$5 9/16
3rd....................	$27 1/4-$22 3/4	$17 11/16-$14	$ 14 3/4-$12 15/16	$ 8 1/2-$7 1/4	$6 11/16-$5 5/8
4th....................	$29 1/4-$24 1/2	$ 22 3/16-$16 1/8	$14 1/16-$10 11/16	$10 5/16-$8 5/16	$ 7 9/16-$5 7/8

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

(2) In April 1996, the Company declared a two-for-one stock split in the form of a 100% stock dividend which was paid in May 1996. All classes of common stock participated on a pro rata basis. The weighted average number of common shares and equivalents and earnings per common and common equivalent share for all years presented have been adjusted to reflect the two-for-one stock split. The 1994, 1993 and 1992 earnings per share and average number of shares outstanding have been adjusted to reflect the assumed conversion of the Company's convertible debentures. In April 1994, the Company redeemed the debentures which reduced the fully diluted number of shares outstanding by 902,466.

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

NUMBER OF SHAREHOLDERS OF RECORD AS OF JANUARY 31, 1997, WERE AS FOLLOWS:

Class A Common	7
Class B Common	587
Class C Common	7
Class D Common	291

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

GENERAL

The matters discussed in this report as well as the news releases issued from time to time by the Company contain certain forward-looking statements that involve risks and uncertainties, including, among other things, that the majority of the Company's revenues are produced by a small number of its total facilities, possible changes in levels and terms of reimbursement for the Company's charges by government programs or other third party payors, the ability of the Company to successfully integrate its recent acquisitions and the ability to finance growth on favorable terms.

RESULTS OF OPERATIONS

Net revenues increased 28% to $1.2 billion in 1996 as compared to 1995 and 19% to $931 million in 1995 as compared to 1994. The $259 million increase in net revenues during 1996 as compared to 1995 was due primarily to: (i) the acquisitions of a 357-bed medical complex located in Amarillo, Texas during the second quarter of 1996 and five behavioral health centers located in Pennsylvania and Texas during the second and third quarters of 1996 ($136 million); (ii) a 225-bed acute care facility and a 512-bed acute care facility, both of which were acquired during the third quarter of 1995, net of the revenue effects of the three acute care facilities divested during the year (net increase of $86 million), and; (iii) revenue growth at acute care facilities owned during both years ($23 million). The $149 million increase in net revenues during 1995 as compared to 1994 was primarily attributable to revenues generated at two acute care facilities acquired by the Company during 1995 net of the revenue effects of the three acute care facilities divested during the year (net increase of $58 million), revenue growth at acute care facilities owned during both years ($44 million) and a full year of revenue generated at an acute care facility acquired by the Company in November, 1994 ($29 million).

Earnings before interest, income taxes, depreciation, amortization, lease and rental expense and nonrecurring transactions (EBITDAR) increased to $215 million in 1996 from $163 million in 1995 and $139 million in 1994. Overall operating margins were 18.0% in 1996, 17.5% in 1995 and 17.8% in 1994. The improvement in the Company's overall operating margin in 1996 as compared to 1995 was due to improvement in operating margins at the acute care hospitals and behavioral health centers owned during both years and due to the 1995 results including losses sustained at the three acute care facilities divested during 1995. While operating margins at the Company's acute care and behavioral health services facilities owned during both 1995 and 1994 increased, overall margins were lower in 1995 as compared to 1994 due to losses sustained at the three acute care facilities divested during 1995.

ACUTE CARE SERVICES

Net revenues from the Company's acute care hospitals, ambulatory treatment centers and women's center accounted for 85%, 86% and 85% of consolidated net revenues in 1996, 1995 and 1994, respectively.

Admissions at the Company's acute care facilities owned during each of the last three years increased 1% in 1996 over 1995 and 9% in 1995 over 1994. The increase in admissions during 1995 as compared to 1994 was due primarily to additional capacity and expansion of service lines at two of the Company's larger facilities. The average length of stay at the acute care facilities owned during the last three years decreased to 5.0 days in 1996 as compared to 5.1 days in 1995 and 5.3 days in 1994. The decrease in the average length of stay at these 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 average lengths of stay. Despite the decline in the average length of stay at the Company's acute care facilities owned during all three years, net revenues at these facilities increased 3% in 1996 over 1995 and 8% in 1995 over 1994 due primarily to an increase in outpatient activity. Outpatient activity at the Company's acute care hospitals continues to increase as gross outpatient revenues at these hospitals increased 12% in 1996 over 1995 and 17% in 1995 over 1994 and comprised 23% of the Company's gross patient revenues in 1996 and 22% in both 1995 and 1994. The increase is primarily the result of advances in medical technologies, 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. To accommodate the increased utilization of outpatient services, the Company has expanded or redesigned several of its outpatient facilities and services.

To further accommodate the trend toward increased outpatient services, the Company has invested in the acquisition and development of outpatient surgery and radiation therapy centers. As of December 31, 1996, the Company operated or managed twenty-seven outpatient treatment centers which have contributed to the increase in the Company's outpatient revenues. The Company's outpatient surgery and radiation therapy center division generated net revenues of $27 million, $23 million and $17 million during 1996, 1995 and 1994, respectively. The Company expects the growth in outpatient services to continue, although the rate of growth may be moderated in the future.

The Company's acute care division generated operating margins (EBITDAR) of 22.5% in 1996, 21.4% in 1995 and 21.3% in 1994. The improvement in the acute care division's operating margins in 1996 as compared to 1995 was primarily the result of the divestiture of three low margin acute care facilities during 1995 and operating margin improvement at an acute care facility acquired during 1994. Despite the improvement in the acute care division's operating margin, most of the Company's facilities continue to experience a deterioration in payor mix and unfavorable general industry trends which include pressures to control healthcare costs resulting in an increase in revenues attributable to managed care payors. In response to the increased pressure on revenues, the Company continues to implement cost control programs at its facilities including more efficient staffing standards and re-engineering of services. On a same-store basis, operating margins at the Company's acute care hospitals owned during all three years were 23.9% in 1996 and 1995 and 23.8% in 1994. The Company has implemented cost control measures at its newly acquired facilities in an effort to improve operating margins at these facilities from their pre-acquisition levels. Pressure on operating margins is expected to continue due to the industry-wide trend away from charge based payors which limits the Company's ability to increase its prices.

BEHAVIORAL HEALTH SERVICES

Net revenues from the Company's behavioral health services facilities accounted for 14%, 13% and 14% of consolidated net revenues in 1996, 1995 and 1994, respectively. Net revenues at the Company's behavioral health facilities owned during each of the last three years decreased 2% in 1996 as compared to 1995 and increased 1% in 1995 as compared to 1994. Admissions at the facilities owned during the last three years increased 5% in 1996 over 1995 and 4% in 1995 as compared to 1994. The average length of stay at these facilities decreased to 12.4 days in 1996 from 13.5 days in 1995 and 13.8 days in 1994. The 2% decrease in net revenues during 1996, as compared to 1995, resulted primarily from the reduction in the average length of stay as a large portion of the Company's behavioral health services' revenues are reimbursed on a per diem basis. The reduction in the average length of stay during the last three years is a result of changing practices in the delivery of behavioral health services and continued cost containment pressures from payors which includes a greater emphasis on the utilization of outpatient services. Management of the Company has responded to these trends by developing and marketing 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 during the last three years increased 14% in 1996 over 1995 and 10% in 1995 over

1994 and comprised 18% of the Company's behavioral health services' gross patient revenues in 1996 as compared to 16% in 1995 and 15% in 1994.

The Company's behavioral health services division generated operating margins (EBITDAR) of 18.1% in both 1996 and 1995 and 15.8% in 1994. On a same-store basis, operating margins at the Company's behavioral health services facilities owned during all three years were 19.5% in both 1996 and 1995 and 15.8% in 1994. Despite the decline in the average length of stay, the EBITDAR margins within the Company's behavioral health services division remained unchanged during 1996 as compared to 1995 due primarily to a slight increase in prices and continued cost controls implemented in response to the managed care environment. The increase in the profit margin in 1995 as compared to 1994 was caused primarily by an increase in patient days and the implementation of cost controls.

OTHER OPERATING RESULTS

Depreciation and amortization expense increased $20.6 million in 1996 over 1995 due primarily to the Company's 1996 and 1995 acquisitions mentioned above. Depreciation and amortization expense increased $9.0 million in 1995 over 1994 due primarily to the Company's acquisition of the two acute care hospitals during 1995, net of effects of three acute care facilities divested during the year, a full year of depreciation expense on an acute care hospital acquired in November of 1994 and the increased depreciation expense related to capital expenditures and acquisition of outpatient treatment centers.

Interest expense increased $10.1 million in 1996 as compared to 1995 due primarily to the increased borrowings related to the purchase of the 357-bed medical complex acquired during the second quarter of 1996 and the five behavioral health centers acquired during the second and third quarters of 1996 and a full year of interest expense on the increased borrowings used to finance the acquisition of the two acute care hospitals acquired during the third quarter of 1995. In June 1996, the Company issued four million shares of its Class B Common Stock at a price of $26 per share. The total net proceeds of $99.1 million generated from this stock issuance were used to partially finance the 1996 purchase transactions mentioned above while the excess of the purchase price over the net proceeds ($69 million) were financed with operating cash flows and borrowings under the Company's commercial paper and revolving credit facilities. Interest expense increased $4.9 million during 1995 over 1994 due primarily to increased borrowings related to the purchase of two acute care hospitals during 1995. The Company issued $135 million of Senior Notes during 1995 which have a coupon rate of 8.75% (9.2% effective rate including amortization of interest rate swap termination fees and amortization of bond discount). The $131 million of net proceeds generated from the issuance of these notes were used to finance the cash purchase price of the two acute care hospitals acquired during 1995 while the excess of the purchase price over the net proceeds ($52 million) were financed with operating cash flows and borrowings under the Company's commercial paper and revolving credit facilities.

During 1996, the Company recorded $4.1 million of nonrecurring charges which consisted of a $2.9 million loss recorded on the anticipated divestiture of an ambulatory treatment center and a $1.2 million charge recorded to fully reserve the carrying value of a behavioral health center owned by the Company and leased to an unaffiliated third party, which is currently in default under the terms of the lease agreement. During 1995, the Company recorded $11.6 million of nonrecurring charges which consisted of: (i) a $14.2 million pre-tax charge due to impairment of long-lived assets; (ii) a $2.7 million loss on disposal of two acute care facilities which were exchanged along with $44 million of cash for a 225-bed acute care hospital, and; (iii) a $5.3 million pre-tax gain realized on the sale of a 202-bed acute care hospital which was divested during the fourth quarter of 1995 for cash proceeds of $19.5 million. During 1994, nonrecurring charges of $9.8 million were recorded consisting of the following: (i) a $4.3 million estimated loss on the disposal of two acute care facilities which were disposed of during 1995; (ii) a $2.8 million write-down in the carrying value of a behavioral health center owned by the Company and leased to an unaffiliated third party which is currently in default under the terms of the lease agreement; (iii) a $1.4 million write-down recorded against the book value of the real property of a behavioral health services hospital, and; (iv) $1.3 million of expenses related to the disposition of a non-strategic business.

During 1995, in conjunction with the development of the Company's operating plan and 1996 budget, management assessed the competitive position of each facility within the portfolio and estimated future cash flows expected from each facility. As a result, the Company recorded a $14.2 million pre-tax charge during 1995 to write-down the carrying value of certain intangible and tangible assets at certain facilities. In measuring the impairment loss, the Company estimated fair value by discounting expected future cash flows from each facility using the Company's internal hurdle rate. The impairment loss related primarily to four facilities in the Company's behavioral health services division and three facilities in its ambulatory treatment center division. Within the behavioral health services division, the impact of managed care was most dramatically felt at the Company's two free standing chemical dependency and two residential treatment centers. Due to increased penetration of managed care payors, changes in CHAMPUS regulations and decreases in admissions, patient days and length of stay at these four facilities, management of the Company determined that profit margins had been permanently impaired. Within the Company's ambulatory treatment center division, three centers are located in highly competitive markets which have become heavily penetrated with managed care. As a result, these ambulatory treatment centers experienced decreases in net revenues per case and case volumes which resulted in permanent impairment of carrying value. During the fourth quarter of 1996, as a result of divestiture negotiations with a third party related to one of these ambulatory treatment centers, the Company recorded a $2.9 million charge to write-down the carrying value of the center to its net realizable value. The Company expects this divestiture to be completed during the first quarter of 1997.

The effective tax rate was 37%, 33% and 39% in 1996, 1995 and 1994, respectively. The effective tax rate was lower in 1995 as compared to 1996 and 1994 due to 1995 including the deductibility of previously non-deductible goodwill amortization resulting from the sale of three acute care hospitals in 1995.

GENERAL TRENDS

An increased proportion of the Company's revenue is derived from fixed payment services, including Medicare and Medicaid which accounted for 50%, 48% and 45% of the Company's net patient revenues during 1996, 1995 and 1994, respectively. The Company expects the Medicare and Medicaid revenues to continue to increase as a larger portion of the general population qualifies for coverage as a result of the aging of the population and expansion of state Medicaid programs. The Medicare program reimburses the Company's hospitals primarily based on established rates by a diagnosis related group for acute care hospitals and by cost based formula for behavioral health facilities.

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.

HEALTHCARE REGULATION AND LEGISLATION

In addition to the trends described above that continue to have an impact on operating results, there are a number of other more general factors affecting the Company's business. In February 1997, the President submitted his fiscal year 1998 budget plan which calls for a $100 billion reduction in the rate of increase in Medicare spending over the next five years and a $138 billion reduction over six years. Included in this proposal are reductions in the future rate of increases to payments made to hospitals. Both Republicans and Democrats are working towards a balanced budget by the year 2002 and it is likely that future budgets will contain certain reductions in the rate of increase of Medicare and Medicaid spending. The Company cannot predict whether the above proposal or any other proposals will be adopted, and if adopted, no assurance can be given that the implementation of such plans will not have a material adverse effect on the Company's business. In Texas, a law has been passed which mandates that the state senate apply for a waiver from current Medicaid regulations to allow the state to require that certain Medicaid participants be serviced through managed care providers. The Company is unable to predict whether Texas will be granted such a waiver or the effect on the Company's business of such waiver. Upon meeting certain conditions, and serving a disproportionately high share of Texas' and South Carolina's low income patients, three of the Company's facilities located in Texas and one facility located in South Carolina became eligible and received additional reimbursement from each state's disproportionate share hospital fund. Included in the Company's financial results was an aggregate of $17.8 million in 1996, $12.6 million in 1995 and $12.7 million in 1994 received pursuant to the terms of these programs. These programs are scheduled to terminate in the third quarter of 1997 and the Company cannot predict whether these programs will continue beyond their scheduled termination date.

INFLATION

The healthcare industry is very labor intensive and salaries and benefits are subject to inflationary pressures as are supply costs which tend to escalate as vendors pass on the rising costs through price increases. Although the Company cannot predict its ability to continue to cover future costs increases, management believes that through the adherence to cost containment policies, labor management and reasonable price increases, the effects of inflation, which has not had a material impact on the results of operations during the last three years, 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 may be limited since although these fixed payments rates are indexed for inflation annually, the increases have historically lagged behind actual inflation.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $145 million in 1996, $92 million in 1995 and $61 million in 1994. The $53 million increase in 1996 as compared to 1995 was primarily attributable to a $30 million increase in the net income plus the addback of the non-cash charges (depreciation, amortization, provision for self-insurance reserves and other non-cash charges) and a $25 million decrease in the payment of income taxes. The $31 million increase in 1995 as compared to 1994 was primarily attributable to: (i) a $21 million increase in the net income plus the addback of the non-cash charges (depreciation, amortization, provision for self-insurance reserves and other non-cash charges); (ii) a $13 million increase in accrued liabilities as of December 31, 1995 as compared to the 1994 year-end balance, and; (iii) a $6 million decrease in the payments made in settlement of self-insurance claims. Partially offsetting these favorable increases in net cash provided by operating activities in 1995 as compared to 1994 was a $10 million increase in income tax payments made during 1995 as compared to 1994. During each of the last three years, the net cash provided by operating activities substantially exceeded the scheduled maturities of long-term debt.

During 1996 the Company acquired the following facilities for total consideration of $168 million (excluding contingent payments, see Note 2 to the consolidated financial statements): (i) substantially all the assets and operations of a 357-bed medical complex located in Amarillo, Texas for $126 million in cash, (ii) substantially all the assets and operations of four behavioral health centers located in Pennsylvania and management contracts to seven other behavioral health centers for $39 million in cash, and; (iii) substantially all the assets and operations of a 164-bed behavioral health facility located in Texas for $3 million in cash. Also during 1996, the Company continued the construction of a medical complex located in Summerlin, Nevada and a new acute care facility located in Edinburg, Texas. The medical complex in Summerlin, Nevada consists of a 149-bed acute care facility (scheduled to open during the fourth quarter of 1997) and an outpatient surgery center, medical office building and a radiation therapy center (all of which opened during the fourth quarter of 1996). As of December 31, 1996, the Company spent $45 million on this project which will cost a total of approximately $60 million when completed. Pursuant to the terms of its acquisition of a 112-bed acute care hospital located in Edinburg, Texas, the Company continues the construction of a 130-bed replacement facility which is expected to be completed during the second quarter of 1997. As of December 31, 1996, the Company spent $8 million on this project which will cost a total of approximately $24 million when completed.

During 1995 the Company acquired the following facilities for two acute care facilities and total cash consideration of $188 million and the assumption of net liabilities of approximately $4 million: (i) a 512-bed acute care hospital located in Bradenton, Florida for approximately $139 million in cash and the assumption of net liabilities of $4 million; (ii) a 225-bed acute care facility located in Aiken, South Carolina for approximately $44 million in cash and a 104-bed acute care hospital and a 126-bed acute hospital, and; (iii) a 82-bed behavioral health facility located in South Attleboro, Massachusetts and a majority interest in two separate partnerships which own and operate outpatient surgery centers located in Fayetteville, Arkansas and Somersworth, New Hampshire for total cash consideration of approximately $5 million. Also during 1995, the Company sold the operations and substantially all the assets of a 202-bed acute care hospital located in Plantation, Florida for cash proceeds of approximately $20 million. The sale resulted in a $5.3 million pre-tax gain which has been included in nonrecurring charges in the 1995 consolidated statement of income.

During 1994, the Company paid $25.8 million for acquisitions of businesses and assets held for lease. Also during 1994, the Company invested in additional ambulatory treatment centers and purchased a 112-bed acute care hospital located in Edinburg, Texas.

Capital expenditures, excluding capital leases and property contributed by minority partners, were $106 million in 1996, $61 million in 1995 and $44 million in 1994. Capital expenditures in 1997 are expected to be approximately $45 million for capital equipment and renovations of existing facilities. Additionally, capital expenditures for new projects at existing hospitals and medical office buildings are expected to total approximately $27 million in 1997. The estimated cost to complete major construction projects in progress at December 31, 1996 is approximately $61 million. The Company believes that its capital expenditure program is adequate to expand, improve and equip its existing hospitals.

Total debt as a percentage of total capitalization was 38% at December 31, 1996, 45% at December 31, 1995 and 26% at December 31, 1994. The decrease during 1996 as compared to 1995 was due primarily to the issuance of additional shares of the Company's Class B Common Stock used to partially finance the 1996 purchase transactions mentioned above. During the second quarter of 1996, the Company issued four million shares of its Class B Common Stock at a price of $26 per share. The total net proceeds of $99.1 million generated from this stock issuance were used to partially finance the 1996 purchase transactions mentioned above while the excess of the purchase price over the net proceeds generated from the stock issuance ($69 million) were financed from operating cash flows and borrowings under the Company's commercial paper and revolving credit facilities. The increase in total debt as a percentage of total capitalization during 1995 as compared to 1994 was due primarily to the additional debt incurred to finance the 1995 purchase transactions mentioned above. During 1995, the Company issued $135 million of Senior Notes. The Senior Notes have an 8.75% coupon rate (9.2% effective rate including amortization of interest rate swap termination fees and amortization of bond discount) and will mature on August 15, 2005. The Notes can be redeemed in whole or in part, at any time on or after August 15, 2000, initially at a price of 102.265%, declining ratably to par on or after August 15, 2002. The interest on the bonds will be paid semiannually in arrears on February 15 and August 15 of each year. The net proceeds generated from the issuance were approximately $131 million and were used to finance the 1995 acquisitions mentioned above while the excess of the purchase price over the net proceeds ($52 million) was financed from operating cash flows and borrowings under the Company's commercial paper and revolving credit facilities. In anticipation of the Senior Note issuance, the Company entered into interest rate swaps having a total notional principal amount of $100 million to hedge the interest rate on the Senior Notes. These interest rate swap agreements were terminated simultaneously with the issuance of the Senior Notes at which time the Company paid a net termination fee of $5.4 million which is being amortized ratably over the ten year term of the Senior Notes.

During 1996, the Company amended its unsecured non-amortizing revolving credit agreement to enable it to complete the acquisition of the 357-bed medical complex in Texas. The amended agreement, which expires on March 31, 2000, provides for $225 million of borrowing capacity, subject to certain conditions, until March 31, 1998, $210 million until March 31, 1999 and $185 million until March 31, 2000. The agreement provides for interest, at the Company's option, at various rates. At December 31, 1996, the Company had $164 million of unused borrowing capacity available under the revolving credit agreement.

A large portion of the Company's accounts receivable are pledged as collateral to secure its $50 million, daily valued commercial paper program. The Company has sufficient patient receivables to support a larger program, and upon the mutual consent of the Company and the participating lending institutions, the commitment can be increased to $100 million. At December 31, 1996 there were $50 million of borrowings outstanding under this facility.

At December 31, 1996 the Company had no interest rate swap agreements outstanding. The effective interest rate on the Company's revolving credit, demand notes and commercial paper program, including the interest rate swap expense, was 6.9%, 8.4% and 16.1% during 1996, 1995 and 1994, respectively. Additional interest expense recorded as a result of the Company's hedging activity was $47,000, $209,000 and $1,981,000 in 1996, 1995 and 1994, 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, the commercial paper facility or the issuance of long-term securities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

There is hereby incorporated by reference the information to appear under the caption "Election of Directors" in the Company's Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after December 31, 1996. 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, 1996.

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, 1996.

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, 1996.

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 25.

(B) REPORTS ON FORM 8-K

None.

(C) EXHIBITS

3.1 Restated Certificate of Incorporation, as amended, previously filed as Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1983. Exhibit 3.2 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1985, and Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1987, are incorporated herein by reference.

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

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

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

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

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

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

10.4 Agreement, effective January 1, 1997, to renew Advisory Agreement, dated as of December 24, 1986, between Universal Health Realty Income Trust and UHS of Delaware, Inc.

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

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

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

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

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

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

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

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

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

10.14 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.

10.15 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.

10.16 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.

10.17 Credit Agreement, dated as of August 2, 1994, among Universal Health Services, Inc., Certain Participating 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, 1994, is incorporated herein by reference.

10.18 Amendment No. 1 to Credit Agreement, dated as of April 24, 1995, among Universal Health Services, Inc., Certain Participating 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 March 31, 1995, is incorporated herein by reference.

10.19 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.

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

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

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

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

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

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

10.26 $7 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 10.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, is incorporated herein by reference.

10.27 Amendment No. 2 to Credit Agreement, dated as of May 10, 1996, among Universal Health Services, Inc., Certain Participating Banks and Morgan Guaranty Trust Company of New York, as Agent.

11. Statement re: computation of per share earnings.

22. Subsidiaries of Registrant.

24. Consent of Independent Public Accountants.

27. Financial Data Schedule.

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

SIGNATURES

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

Universal Health Services, Inc.

By: /s/ Alan B. Miller

ALAN B. MILLER
PRESIDENT

March 3, 1997

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 3, 1997
/s/ Sidney Miller SIDNEY MILLER	Secretary and Director	March 5, 1997
/s/ Anthony Pantaleoni ANTHONY PANTALEONI	Director	March 5, 1997
/s/ Martin Meyerson MARTIN MEYERSON	Director	March 5, 1997
/s/ Robert H. Hotz ROBERT H. HOTZ	Director	March 5, 1997
/s/ John H. Herrell JOHN H. HERRELL	Director	March 5, 1997
/s/ Paul R. Verkuil PAUL R. VERKUIL	Director	March 5, 1997
/s/ Kirk E. Gorman KIRK E. GORMAN	Senior Vice President and Chief Financial Officer	March 4, 1997
/s/ Steve Filton STEVE FILTON	Vice President, Controller and Principal Accounting Officer	March 4, 1997

UNIVERSAL HEALTH SERVICES, INC.

INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE

(ITEM 14(A))

Consolidated Financial Statements:

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Universal Health Services, Inc. (Delaware corporation) and subsidiaries as of December 31, 1996 and 1995, 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, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Universal Health Services, Inc. and subsidiaries as of December 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

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

Arthur Andersen LLP

Philadelphia, PA
February 12, 1997

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31		
	1996	1995	1994
Net revenues	$1,190,210,000	$931,126,000	$782,199,000
Operating charges			
Operating expenses	458,063,000	361,049,000	298,108,000
Salaries and wages	420,525,000	329,939,000	286,297,000
Provision for doubtful accounts	96,872,000	76,905,000	58,347,000
Depreciation & amortization	71,941,000	51,371,000	42,383,000
Lease and rental expense	37,484,000	36,068,000	34,097,000
Interest expense, net	21,258,000	11,195,000	6,275,000
Nonrecurring charges	4,063,000	11,610,000	9,763,000
Total operating charges	1,110,206,000	878,137,000	735,270,000
Income before income taxes	80,004,000	52,989,000	46,929,000
Provision for income taxes	29,333,000	17,505,000	18,209,000
Net income	$ 50,671,000	$ 35,484,000	$ 28,720,000
Earnings per common & common share equivalents	$ 1.64	$ 1.26	$ 1.01
Weighted average number of common shares and equivalents	30,848,000	28,158,000	28,778,000

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31	
	1996	1995
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 288,000	$ 34,000
Accounts receivable, net	145,364,000	114,163,000
Supplies	22,019,000	18,207,000
Deferred income taxes	12,313,000	18,989,000
Other current assets	13,969,000	5,529,000
Total current assets	193,953,000	156,922,000
PROPERTY AND EQUIPMENT		
Land	63,503,000	36,055,000
Buildings and improvements	465,781,000	348,182,000
Equipment	257,170,000	206,193,000
Property under capital lease	27,243,000	27,415,00
	813,697,000	617,845,000
Less accumulated depreciation	271,936,000	248,540,000
	541,761,000	369,305,000
Construction in progress	25,867,000	23,683,000
	567,628,00	392,988,000
OTHER ASSETS		
Excess of cost over fair value of net assets acquired	150,336,000	136,206,000
Deferred income taxes	9,993,000	17,283,000
Deferred charges	11,237,000	11,466,000
Other	32,648,000	33,186,000
	204,214,000	198,141,000
	$965,795,000	$748,051,000
LIABILITIES AND COMMON STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 6,866,000	$ 7,125,000
Accounts payable	57,117,000	52,855,000
Accrued liabilities		
Compensation and related benefits	27,278,000	20,470,000
Interest	4,899,000	5,513,000
Other	43,147,000	47,180,000
Federal and state taxes	772,000	1,874,000
Total current liabilities	140,079,000	135,017,000
OTHER NONCURRENT LIABILITIES	97,102,000	78,248,000
LONG-TERM DEBT	275,634,000	237,086,000
COMMITMENTS AND CONTINGENCIES		
COMMON STOCKHOLDERS' EQUITY		
Class A Common Stock, voting, $.01 par value; authorized 12,000,000 shares; issued and outstanding 2,060,929 shares in 1996 and 1,090,527 in 1995	21,000	11,000
Class B Common Stock, limited voting, $.01 par value; authorized 50,000,000 shares; issued and outstanding 29,816,153 shares in 1996 and 12,658,818 in 1995	298,000	127,000
Class C Common Stock, voting, $.01 par value; authorized 1,200,000 shares; issued and outstanding 207,230 shares in 1996 and 109,622 in 1995	2,000	1,000
Class D Common Stock, limited voting, $.01 par value; authorized 5,000,000 shares; issued and outstanding 36,805 shares in 1996 and 20,503 in 1995	--	--
Capital in excess of par value, net of deferred compensation of $377,000 in 1996 and $941,000 in 1995	194,308,000	89,881,000
Retained earnings	258,351,000	207,680,000
	452,980,000	297,700,000
	$965,795,000	$748,051,000

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31		
	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 50,671,000	$ 35,484,000	$ 28,720,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	71,941,000	51,371,000	42,383,000
Provision for self-insurance reserves	15,874,000	14,291,000	10,810,000
Other non-cash charges	4,063,000	11,610,000	9,763,000
Changes in assets and liabilities, net of effects from acquisitions and dispositions:			
Accounts receivable	(93,000)	(5,125,000)	(4,380,000)
Accrued interest	(614,000)	3,071,000	(805,000)
Accrued and deferred income taxes	15,699,000	(20,826,000)	(9,944,000)
Other working capital accounts	3,434,000	10,944,000	1,710,000
Other assets and deferred charges	(5,125,000)	(3,982,000)	(3,064,000)
Other	(2,722,000)	3,390,000	(42,000)
Payments made in settlement of self-insurance claims	(7,872,000)	(8,479,000)	(14,527,000)
Net cash provided by operating activities	145,256,000	91,749,000	60,624,000
CASH FLOWS FROM INVESTING ACTIVITIES:			
Property and equipment additions	(105,728,000)	(60,734,000)	(43,998,000)
Disposition of assets	1,765,000	2,321,000	1,132,000
Acquisition of properties previously leased	--	--	(5,771,000)
Acquisition of businesses	(168,429,000)	(187,865,000)	(16,794,000)
Note receivable related to acquisition	(7,000,000)	--	--
Acquisition of assets held for lease	--	(3,561,000)	(9,059,000)
Disposition of businesses	--	19,495,000	3,791,000
Other investments	--	--	(1,079,000)
Net cash used in investing activities	(279,392,000)	(230,344,000)	(71,778,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Additional borrowings, net of financings costs	41,800,000	149,323,000	45,469,000
Reduction of long-term debt	(7,699,000)	(12,009,000)	(21,981,000)
Issuance of common stock	100,289,000	535,000	1,026,000
Repurchase of common shares	--	--	(13,149,000)
Net cash provided by financing activities	134,390,000	137,849,000	11,365,000
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	254,000	(746,000)	211,000
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	34,000	780,000	569,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 288,000	$ 34,000	$ 780,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid	$ 21,872,000	$ 8,124,000	$ 7,080,000
Income taxes paid, net of refunds	$ 13,634,000	$ 38,331,000	$ 28,153,000

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:
See Notes 2 and 6

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 1996, 1995, AND 1994

	CLASS A COMMON	CLASS B COMMON	CLASS C COMMON	CLASS D COMMON	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	TOTAL
Balance January 1, 1994	$11,000	$122,000	$1,000	$--	$ 80,878,000	$143,476,000	$224,488,000
Common Stock							
Issued	--	9,000	--	--	20,308,000	--	20,317,000
Repurchased	--	(5,000)	--	--	(13,144,000)	--	(13,149,000)
Amortization of deferred compensation	--	--	--	--	277,000	--	277,000
Cancellation of stock grant	--	--	--	--	(24,000)	--	(24,000)
Net income	--	--	--	--	--	28,720,000	28,720,000
Balance January 1, 1995	11,000	126,000	1,000	--	88,295,000	172,196,000	260,629,000
Common Stock Issued	--	1,000	--	--	1,117,000	--	1,118,000
Amortization of deferred compensation	--	--	--	--	469,000	--	469,000
Net income	--	--	--	--	--	35,484,000	35,484,000
Balance January 1, 1996	11,000	127,000	1,000	--	89,881,000	207,680,000	297,700,000
Common Stock							
Issued	--	42,000	--	--	103,871,000	--	103,913,000
Converted	(1,000)	1,000	--	--	--	--	--
Stock dividend	11,000	128,000	1,000	--	(140,000)	--	--
Amortization of deferred compensation	--	--	--	--	696,000	--	696,000
Net income	--	--	--	--	--	50,671,000	50,671,000
Balance, December 31, 1996	$21,000	$298,000	$2,000	$--	$194,308,000	$258,351,000	$452,980,000

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NATURE OF OPERATIONS: The principal business of the Company is owning and operating acute care hospitals, behavioral health centers, ambulatory surgery centers and radiation oncology centers. At December 31, 1996, the Company operated 35 hospitals, consisting of 14 acute care hospitals, 20 behavioral health centers and one women's center, in Arkansas, California, Florida, Georgia, Illinois, Louisiana, Massachusetts, Michigan, Missouri, Nevada, Oklahoma, Pennsylvania, South Carolina, Texas and Washington. The Company, as part of its Ambulatory Treatment Centers Division owns outright, or in partnership with physicians, and operates or manages 27 surgery and radiation oncology centers located in 15 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, data processing, finance and control systems, facilities planning, physician recruitment services, administrative personnel management, marketing and public relations.

Net revenues from the Company's acute care hospitals, ambulatory and outpatient treatment centers and women's center accounted for 85%, 86% and 85% of consolidated net revenues in 1996, 1995 and 1994, respectively.

NET REVENUES: Net revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. These net revenues are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Medicare and Medicaid net revenues represented 50%, 48% and 45% of net patient revenues for the years 1996, 1995 and 1994, respectively.

CONCENTRATION OF REVENUES: Valley Hospital Medical Center, McAllen Medical Center and Manatee Memorial Hospital contributed 13%, 16% and 11% of the Company's net revenues in 1996, respectively. On a pro forma basis, assuming the acquisitions described in Note 2 had been completed as of January 1, 1996, Valley, McAllen and Manatee would have contributed 12%, 15% and 10%, respectively, of the Company's net revenues in 1996.

ACCOUNTS RECEIVABLE: Accounts receivable are recorded at the estimated net realizable amounts from patients, third-party payors and others for services rendered, net of contractual allowances and net of allowance for doubtful accounts of $30,398,000 and $49,016,000 in 1996 and 1995, respectively.

PROPERTY AND EQUIPMENT: Property and equipment are stated at cost. Expenditures for renewals and improvements are charged to the property accounts. Replacements, maintenance and repairs which do not improve or extend the life of the respective asset are expensed as incurred. The Company removes the cost and the related accumulated depreciation from the accounts for assets sold or retired and the resulting gains or losses are included in the results of operations.

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

OTHER ASSETS: The excess of cost over fair value of net assets acquired in purchase transactions, net of accumulated amortization of $74,654,000 in 1996 and $59,957,000 in 1995, is amortized using the straight-line method over periods ranging from five to forty years.

During 1994, the Company established an employee life insurance program covering approximately 2,200 employees. At December 31, 1996 and 1995, the cash surrender value of the policies ($103 million and $34 million, respectively) were recorded net of related loans ($102 million and $34 million, respectively) and is included in other assets.

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

In 1995, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." The Statement requires the recognition of an impairment loss for an asset held for use when the estimate of undiscounted future cash flows expected to be generated by the asset is less than its carrying amount.

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

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

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

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

STATEMENT OF CASH FLOWS: For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents. Interest expense in the consolidated statements of income is net of interest income of $173,000, $567,000 and $266,000 in 1996, 1995 and 1994, respectively.

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

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

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

2) ACQUISITIONS AND DIVESTITURES

1996 -- During the second quarter, the Company completed the acquisition of Northwest Texas Healthcare Systems, ("Northwest Texas") a 357-bed medical complex located in Amarillo, Texas for $126 million in cash. The assets acquired include the real and personal property, working capital and tangible assets. The Company also will be required to pay additional consideration to the seller equal to 15% of any amount of the hospital's earnings before depreciation, interest and taxes in excess of $24 million in each year of the seven year period ending March 31, 2003. In addition, under the terms of the agreement, the seller will pay the Company $8 million per year for the first four years and $6 million per year (subject to certain adjustments for inflation) for up to an additional 36 years to help support the cost of medical services to indigent patients.

During the second quarter, the Company acquired four behavioral health centers located in Pennsylvania, management contracts for seven other behavioral health centers and 33 acres of land adjacent to the Company's Wellington Regional Medical Center, for $39 million. The Company will be required to pay additional consideration of up to $8 million contingent upon the facilities' combined earnings before interest, taxes, depreciation and amortization, ("EBITDA") for the 12 month period commencing May 1, 1996. In connection with this transaction, the Company loaned the seller $7 million which is secured by the stock of a subsidiary of the seller. The loan is due September 1997 and is included in other current assets.

During the third quarter of 1996 , the Company acquired a 164-bed behavioral health center located in Texas for $3 million. Also during the fourth quarter of 1996, as a result of divestiture negotiations with a third party regarding one of the Company's ambulatory treatment centers, the Company recorded a $2.9 million charge to write-down the carrying value of the center to its net realizable value. The Company expects this divestiture to be completed during the first quarter of 1997.

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

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

Assuming the 1996 acquisitions had been completed as of January 1, 1996, the unaudited pro forma net revenues and net income for the year ended December 31, 1996 would have been approximately $1.3 billion and $53.4 million, respectively. In addition, the unaudited pro forma earnings per share would have been $1.73. Assuming the 1996 acquisitions and the 1995 acquisitions of Aiken Regional Medical Centers and Manatee Memorial Hospital had been completed as of January 1, 1995, the unaudited pro forma net revenues and net income for the year ended December 31, 1995 would have been approximately $1.2 billion and $46.5 million, respectively. In addition, the unaudited pro forma earnings per share would have been $1.44. The unaudited pro forma financial information may not be indicative of results that would have been reported if the acquisitions had occurred at the beginning of the earliest period presented and may not be indicative of future operating results.

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

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

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

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

Operating results of Aiken and Manatee have been included in the financial statements from their respective dates of acquisition. Assuming the Aiken and Manatee acquisitions had been completed as of January 1, 1995 the unaudited pro forma net revenues and net income would have been approximately $1 billion and $37.9 million, respectively. In addition, the unaudited pro forma earnings per share would have been $1.35. Operating results for Edinburg Hospital, a 112-bed acute care facility located in Edinburg, Texas, have been included in the financial statements from the date of acquisition (November 1994). Assuming the Aiken, Manatee and Edinburg acquisitions had been completed as of January 1, 1994 the unaudited pro forma net revenues and net income would have been $952 million and $32.0 million, respectively. In addition, the unaudited pro forma earnings per share would have been $1.13. The unaudited pro forma financial information may not be indicative of results that would have been reported if the acquisitions had occurred at the beginning of the earliest period presented and may not be indicative of future operating results.

The excess of cost over fair value of net tangible assets acquired in the 1995 purchase transactions is amortized using the straight-line method over fifteen years.

1994 -- During 1994 the Company purchased majority interests in two separate partnerships which own and operate outpatient surgery facilities. One of these partnerships was merged with an existing partnership in which the Company held a majority ownership. The Company also agreed to manage the operations of, and purchased a majority interest in, these separate partnerships which lease fixed assets to four radiation therapy centers located in Kentucky. In addition, the Company purchased one radiation center and majority interests in two separate partnerships which own and operate radiation therapy centers. Total consideration for these acquisitions was $14.5 million in cash, and the assumption of liabilities totaling $3.0 million.

In November 1994, the Company acquired a 112-bed acute care hospital located in Edinburg, Texas for net cash of approximately $11.3 million and the assumption of liabilities totaling $2.2 million. In connection with this acquisition, the Company committed to invest at least an additional $30 million, over a ten year period, to renovate the existing facility and construct an additional facility. As of December 31, 1996, the Company spent $8 million on the construction of a 130-bed replacement facility which will cost a total of approximately $24 million when completed.

3) LONG-TERM DEBT

A summary of long-term debt follows:

	DECEMBER 31	
	1996	1995
Long-term debt:		
Notes payable (including obligations under capitalized leases of $10,542,000 in 1996 and $14,220,000 in 1995) with varying maturities through 2001; weighted average interest at 6.8% in 1996 and 6.9% in 1995 (see Note 6 regarding capitalized leases)	$17,887,000	$20,443,000
Mortgages payable, interest at 6.0% to 9.0% with varying maturities through 2000	1,618,000	2,184,000
Revolving credit and demand notes	60,750,000	21,450,000
Commercial paper	50,000,000	48,000,000
Revenue bonds:		
interest at floating rates ranging from 3.1% to 3.2% at December 31, 1996 with varying maturities through 2015	18,200,000	18,200,000
8.75% Senior Notes due 2005, net of the unamortized discount of $955,000 in 1996 and $1,066,000 in 1994	134,045,000	133,934,000
	282,500,000	244,211,000
Less--Amounts due within one year	6,866,000	7,125,000
	$275,634,000	$237,086,000

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

The Company amended its unsecured non-amortizing revolving credit agreement in 1996 to enable it to complete the acquisition of Northwest Texas Healthcare Systems in Amarillo, Texas. The amended agreement, which expires on March 31, 2000, provides for $225 million of borrowing capacity, subject to certain conditions, until March 31, 1998, $210 million until March 31, 1999 and $185 million until March 31, 2000. The agreement provides for interest, at the Company's option at the prime rate, certificate of deposit rate plus 5/8% to 1 1/8% or Euro-dollar plus 1/2% to 1%. A fee ranging from 1/8% to 3/8% is required on the unused portion of this commitment. The margins over the certificate of deposit, the Euro-dollar rates and the commitment fee are based upon specified leverage and coverage ratios. At December 31, 1996 the applicable margins over the certificate of deposit and the Euro-dollar rate were 7/8% and 3/4%, respectively, and the commitment fee was 1/4%. There are no compensating balance requirements. The agreement contains a provision whereby 50% of the net consideration, in excess of $25 million, from the disposition of assets will be applied to reduce commitments unless such net consideration is reinvested in newly acquired capital over a twelve month period. At December 31, 1996, the Company had $164 million of unused borrowing capacity available under the revolving credit agreement.

The average amounts outstanding during 1996, 1995 and 1994 under the revolving credit and demand notes and commercial paper program were $108,125,000, $46,984,000 and $16,324,000, respectively, with corresponding effective interest rates of 6.9%, 8.0% and 7.9% including commitment fees. The maximum amounts outstanding at any month-end were, $220,700,000, $79,450,000 and $47,450,000 during 1996, 1995 and 1994, respectively.

A large portion of the Company's accounts receivable are pledged as collateral to secure its $50 million, daily valued commercial paper program. The Company has sufficient patient receivables to support a larger program, and upon the mutual consent of the Company and the participating lending institutions, the commitment can be increased to $100 million. A commitment fee of .76% is required on this $50 million commitment. This annually renewable program is scheduled to expire on October 30, 1997. Outstanding amounts of commercial paper that can be refinanced through available borrowings under the Company's revolving credit agreement are classified as long-term.

At December 31, 1996, the Company had no outstanding interest rate swap agreements. As of December 31, 1995 the Company had one interest rate swap agreement outstanding which fixed interest on $10 million notional principal at 9.02%. The effective interest rate on the Company's revolving credit, demand notes and commercial paper program including the interest rate swap expense incurred on now expired interest rate swaps was 6.9%, 8.4% and 16.1% during 1996, 1995 and 1994, respectively. Additional interest expense recorded as a result of the Company's hedging activity was $47,000, $209,000 and $1,981,000 in 1996, 1995 and 1994, respectively.

Covenants relating to long-term debt require maintenance of a minimum net worth, specified debt to total capital, debt to EBITDA and fixed charge coverage ratios. Covenants also limit the Company's ability to incur additional senior debt and to pay cash dividends and repurchase its shares and limit capital expenditures, among other restrictions. The Company is in compliance with all required covenants as of December 31, 1996.

The fair value of the Company's long-term debt at December 31, 1996 and 1995 was approximately $282.5 million and $247.3 million, respectively.

Aggregate maturities follow:

1997	$ 6,866,000
1998	4,494,000
1999	3,289,000
2000	115,252,000
2001	168,000
Later	152,431,000
Total	$282,500,000

4) COMMON STOCK

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

At December 31, 1996, 6,164,881 shares of Class B Common Stock were reserved for issuance upon conversion of shares of Class A, C and D Common Stock outstanding, for issuance upon exercise of options to purchase Class B Common Stock, and for issuance of stock under other incentive plans. Class A, C and D Common Stock are convertible on a share for share basis into Class B Common Stock.

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

	YEAR ENDED DECEMBER 31	
	1996	1995
Net Income:		
As Reported	$50,671,000	$35,484,000
Pro Forma	$50,217,000	$35,382,000
Earnings Per Share:		
As Reported	$ 1.64	$ 1.26
Pro Forma	$ 1.63	$ 1.26

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

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

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

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

Information with respect to these options is summarized as follows:

OUTSTANDING OPTIONS	NUMBER OF SHARES	AVERAGE OPTION PRICE	RANGE (HIGH-LOW)
Balance, January 1, 1994	328,674	$ 6.27	$ 7.50--$ 3.63
Granted	1,121,500	$11.03	$12.75--$ 9.81
Exercised	(31,976)	$ 5.49	$ 7.50--$ 3.69
Cancelled	(11,000)	$ 8.32	$ 9.81--$ 6.94
Balance, January 1, 1995	1,407,198	$10.06	$12.75--$ 3.63
Granted	621,000	$16.48	$17.00--$13.06
Exercised	(48,926)	$ 8.05	$11.13--$ 3.63
Cancelled	(9,750)	$ 9.24	$11.13--$ 6.94
Balance, January 1, 1996	1,969,522	$12.14	$17.00--$ 5.56
Granted	54,100	$24.40	$25.13--$22.94
Exercised	(467,974)	$ 9.43	$16.56--$ 5.56
Cancelled	(21,600)	$ 9.76	$11.13--$ 6.94
Balance, December 31, 1996	1,534,048	$13.43	$25.13--$ 5.69

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, 1996 have an average remaining contractual life of 3.2 years. At December 31, 1996, options for 961,950 shares were available for grant. At December 31, 1996, options for 465,350 shares of Class B Common Stock with an aggregate purchase price of $5,556,478 (average of $11.94 per share) were exercisable. In connection with the stock option plan, the Company provides the optionee with a loan to cover the tax liability incurred upon exercise of the options. The Company recorded compensation expense of $3.9 million in 1996, $118,000 in 1995 and $29,000 in 1994 in connection with this loan program.

In addition to the stock option plan the Company has the following stock incentive and purchase plans: (i) a Stock Compensation Plan which expires in November, 2004 under which Class B Common Shares may be granted to key employees, consultants and independent contractors (officers and directors are ineligible); (ii) a Stock Bonus Plan pursuant to the terms of which eligible employees may elect to receive all or part of their annual bonus in shares of restricted stock and whereby the Company will provide a 20% match on the portion of the bonus received in shares of restricted stock; (iii) a Stock Ownership Plan whereby eligible employees may purchase shares of Class B Common Stock directly from the Company at current market value and whereby the Company will loan each eligible employee 90% of the purchase price for the shares, subject to certain limitations, (loans are partially recourse to the employees); (iv) a Restricted Stock Purchase Plan which allows eligible participants to purchase shares of Class B Common Stock at par value, subject to certain restrictions, and; (v) a Stock Purchase Plan which allows eligible employees to purchase shares of Class B Common Stock at a ten percent discount. The Company has reserved 2 million shares of Class B Common Stock for issuance under these various plans and has issued 666,433 shares pursuant to the terms of these plans as of December 31, 1996, of which 74,871, 93,348 and 82,672 became fully vested during 1996, 1995 and 1994, respectively. Compensation expense of $2.8 million in 1996, $415,000 in 1995 and $148,000 in 1994 was recognized in connection with these plans.

During 1994, the Company repurchased 1,019,600 shares of Class B Common Stock, at an average purchase price of $12.90 per share, or an aggregate of approximately $13.2 million. All repurchases during 1994 were made subsequent to March 1, 1994. The Company's ability to repurchase its shares is limited by long-term debt covenants to $50 million plus 50% of cumulative net income since March, 1994. Under the terms of these covenants, the Company had the ability to repurchase an additional $104.7 million of its Common Stock as of December 31, 1996. The repurchased shares are treated as retired.

5) INCOME TAXES

Components of income tax expense are as follows:

	YEAR ENDED DECEMBER 31		
	1996	1995	1994
Currently payable			
Federal	$13,888,000	$33,659,000	$27,014,000
State	1,479,000	4,434,000	3,009,000
	15,367,000	38,093,000	30,023,000
Deferred			
Federal	12,140,000	(17,912,000)	(10,412,000)
State	1,826,000	(2,676,000)	(1,402,000)
	13,966,000	(20,588,000)	(11,814,000)
Total	$29,333,000	$17,505,000	$18,209,000

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

	YEAR ENDED DECEMBER 31	
	1996	1995
Self-insurance reserves	$34,479,000	$30,401,000
Doubtful accounts and other reserves	2,611,000	14,185,000
State income taxes	(733,000)	73,000
Other deferred tax assets	2,681,000	--
Depreciable and amortizable assets	(16,732,000)	(4,466,000)
Conversion from cash basis to accrual basis of accounting	--	(2,509,000)
Other deferred tax liabilities	--	(1,412,000)
Total deferred taxes	$22,306,000	$36,272,000

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

	YEAR ENDED DECEMBER 31		
	1996	1995	1994
Federal statutory rate	35.0%	35.0%	35.0%
Nondeductible (deductible) depreciation, amortization and other	(1.0)	(4.1)	1.6
State taxes, net of Federal income tax benefit	2.7	2.1	2.2
Effective tax rate	36.7%	33.0%	38.8%

In 1996 and 1995, the Company reviewed its deferred state tax balances and as a result reduced its tax provision by $390,000 in each year. The net deferred tax assets and liabilities are comprised as follows:

	YEAR ENDED DECEMBER 31,	
	1996	1995
Current deferred taxes		
Assets	$ 12,474,000	$22,910,000
Liabilities	(161,000)	(3,921,000)
Total deferred taxes-current	12,313,000	18,989,000
Noncurrent deferred taxes		
Assets	27,297,000	21,749,000
Liabilities	(17,304,000)	(4,466,000)
Total deferred taxes-noncurrent	9,993,000	17,283,000
Total deferred taxes	$ 22,306,000	$36,272,000

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

6) LEASE COMMITMENTS

Certain of the Company's hospital and medical office facilities and equipment are held under operating or capital leases which expire through 2013 (See Note 8). Certain of these leases also contain provisions allowing the Company to purchase the leased assets during the term or at the expiration of the lease at fair market value.

A summary of property under capital lease follows:

	DECEMBER 31,	
	1996	1995
Land, buildings and equipment	$27,243,000	$27,415,000
Less: accumulated amortization	17,371,000	12,867,000
	$ 9,872,000	$14,548,000

Future minimum rental payments under lease commitments with a term of more than one year as of December 31, 1996, are as follows:

YEAR	CAPITAL LEASES	OPERATING LEASES
1997	$ 5,216,000	$23,145,000
1998	3,094,000	20,266,000
1999	1,934,000	18,668,000
2000	1,248,000	15,131,000
2001	130,000	13,373,000
Later Years	--	7,587,000
Total minimum rental	$11,622,000	$98,170,000
Less: Amount representing interest	1,080,000	
Present value of minimum rental commitments	10,542,000	
Less: Current portion of capital lease obligations	4,643,000	
Long-term portion of capital lease obligations	$ 5,899,000	

Capital lease obligations of $1,902,000, $4,961,000 and $4,654,000 in 1996, 1995 and 1994, respectively, were incurred when the Company entered into capital leases for new equipment.

7) COMMITMENTS AND CONTINGENCIES

Most of the Company's subsidiaries are self-insured for general and professional liability risks for claims limited to $5 million per occurrence. Effective January 1, 1996, the Company's self-insured subsidiaries purchased general and professional liability insurance coverage for a three year term with a commercial insurer. These policies include coverage for claims in excess of $5 million and limited to $25 million per occurrence and have an unlimited aggregate. Coverage in excess of these limits up to $100 million is maintained with other major insurance carriers. Since 1993, certain of the Company's subsidiaries, including one of its larger acute care facilities, have purchased general and professional liability occurrence policies with commercial insurers. These policies include coverage up to $25 million per occurrence for general and professional liability risks.

As of December 1996 and 1995, the reserve for professional and general liability claims was $72.6 million and $67.2 million, respectively, of which $13.0 million and $22.8 million in 1996 and 1995, respectively, is included in current liabilities. Self-insurance reserves are based upon actuarially determined estimates. These estimates are based on historical information along with certain assumptions about future events. Changes in assumptions for such things as medical costs as well as changes in actual experience could cause these estimates to change in the near term.

The Company has outstanding letters of credit totalling $15.8 million related to the Company's self-insurance programs ($8.7 million), as support for various debt instruments ($1.3 million) and as support for a loan guarantee for an unaffiliated party ($5.8 million). The Company has also guaranteed approximately $500,000 of loans.

Pursuant to the terms of its 1994 acquisition of a 112-bed acute care hospital located in Edinburg, Texas, the Company continues the construction of a 130-bed replacement facility which is expected to be completed during the second quarter of 1997. As of December 31, 1996, the Company spent $8 million on this project which will cost a total of approximately $24 million when completed. The Company has also agreed to construct a medical complex, including a 149-bed acute care facility, in Summerlin, Nevada for a total cost of approximately $60 million. The Company estimates the cost to complete major construction projects in progress at December 31, 1996 will approximate $61 million.

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

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

8) RELATED PARTY TRANSACTIONS

At December 31, 1996, the Company held approximately 8% of the outstanding shares of Universal Health Realty Income Trust (the "Trust"). Certain officers and directors of the Company are also officers and/or Directors of the Trust. The Company accounts for its investment in the Trust using the equity method of accounting. The Company's pre-tax share of income from the Trust was $1,107,000, $1,052,000 and $1,095,000 in 1996, 1995 and 1994 respectively, and is included in net revenues in the accompanying consolidated statements of income. The carrying value of this investment at December 31, 1996 and 1995 was $8,391,000 and $8,468,000, respectively, and is included in other assets in the accompanying consolidated balance sheets. The market value of this investment at December 31, 1996 and 1995 was $14,323,000 and $12,489,000, respectively.

As of December 31, 1996, the Company leased seven hospital facilities from the Trust with initial terms expiring in 1999 through 2003. These leases contain up to six 5-year renewal options. Future minimum lease payments to the Trust are included in Note 6. The terms of the lease provide that in the event the Company discontinues operations at the leased facility for more than one year, the Company is obligated to offer a substitute property. If the Trust does not accept the substitute property offered, the Company is obligated to purchase the leased facility back from the Trust at a price equal to the greater of its then fair market value or the original purchase price paid by the Trust. During 1995, in exchange for the real estate assets of a 126-bed acute care hospital divested by the Company during the year, the Company exchanged with the Trust substitute properties consisting of additional real estate assets owned by the Company but related to three acute care facilities owned by the Trust and operated by the Company (See Note 2). Total rent expense under these operating leases was $16,900,000 in 1996, $16,000,000 in 1995 and $15,700,000 in 1994. The Company received an advisory fee of $1,044,000 in 1996, $953,000 in 1995 and $909,000 in 1994, from the Trust for investment and administrative services provided under a contractual agreement which is included in net revenues in the accompanying consolidated statement of income.

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

9) OTHER NONRECURRING CHARGES

During the fourth quarter of 1996, as a result of divestiture negotiations with a third party regarding one of the Company's ambulatory treatment centers, the Company recorded a $2.9 million charge to write-down the carrying value of the center to its net realizable value. The Company expects this divestiture to be completed during the first quarter of 1997.

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

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

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

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

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

During 1994, nonrecurring charges of $9.8 million were recorded consisting of the following: (i) a $4.3 million estimated loss on the disposal of two acute care facilities which were disposed of during 1995; (ii) a $2.8 million write-down in the carrying value of a behavioral health center owned by the Company and leased to an unaffiliated third party which is currently in default under the terms of the lease agreement; (iii) a $1.4 million write-down recorded against the book value of the real property of a behavioral health services hospital, and; (iv) $1.3 million of expenses related to the disposition of a non-strategic business.

10) PENSION PLAN

The Company maintains a contributory and non-contributory retirement plan for eligible employees. The non-contributory plan is a defined benefit pension plan which covers employees of one of the Company's subsidiaries. Effective December 31, 1995 accrued benefits were frozen for employees hired after July 25, 1984. A partial curtailment was recognized in the 1995 actuarial valuation, which was not material to the consolidated financial statements. The benefits are based on years of service and the employee's highest compensation for any five years of employment. The Company's funding policy is to contribute annually at least the minimum amount that should be funded in accordance with the provisions of ERISA. The plan's funded status and amounts recognized in the Company's balance sheet as of December 31, 1996 and 1995 are as follows:

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

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

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

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

11) QUARTERLY RESULTS (UNAUDITED)

The following tables summarize the Company's quarterly financial data for the two years ended December 31, 1996.

1996	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Net revenues	$271,616,000	$286,994,000	$303,479,000	$328,121,000
Income before income taxes	$ 24,178,000	$ 19,151,000	$ 17,499,000	$ 19,176,000
Net income	$ 15,501,000	$ 12,216,000	$ 11,285,000	$ 11,669,000
Earning per share (fully diluted)	$ 0.54	$ 0.42	$ 0.34	$ 0.35

Net revenues in 1996 include $17.8 million of additional revenues received from special Medicaid reimbursement programs. Of this amount, $1.8 million was recorded in the first quarter, $3.6 million in the second quarter, $4.7 million in the third quarter and $7.7 million in the fourth quarter. These programs are scheduled to terminate in 1997. These amounts were recorded in the periods that the Company met all of the requirements to be entitled to these reimbursements. The fourth quarter results include a $1.2 million write-down recorded against the book value of the real property of a behavioral health facility owned by the Company and leased to an unaffiliated third party, which is currently in default under the terms of the lease and a $2.9 million charge related to the anticipated disposition of an ambulatory treatment center (See Note 2).

1995	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Net revenues..............	$220,715,000	$214,165,000	$234,144,000	$262,102,000
Income before income taxes....................	$ 19,344,000	$ 14,448,000	$ 11,299,000	$ 7,898,000
Net income................	$ 11,841,000	$ 9,555,000	$ 7,229,000	$ 6,859,000
Earnings per share (fully diluted).................	$ 0.42	$ 0.34	$ 0.26	$ 0.24

Net revenues in 1995 include $12.6 million of additional revenues received from special Medicaid reimbursement programs. Of this amount, $3.8 million was recorded in each of the first and second quarters, $3.1 million in the third quarter and $1.9 million in the fourth quarter. The second quarter operating results include a $2.7 million pre-tax charge related to the Company's divestiture of two acute care hospitals in connection with the acquisition of the acute care hospital located in Aiken, South Carolina (See Note 2). The fourth quarter results include a $5.3 million gain related to the Company's divestiture of an acute care hospital. The fourth quarter results also include a $14.2 million pre-tax charge for an impairment loss at certain facilities (see Note 9).

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS: CHARGED TO COSTS AND EXPENSES	ADDITIONS: ACQUISITIONS OF BUSINESSES	WRITE-OFF OF UNCOLLECTIBLE ACCOUNTS	BALANCE AT END OF PERIOD
ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE:					
Year ended December 31, 1996	$49,016,000	$96,872,000	$10,324,000	$(125,814,000)	$30,398,000
Year ended December 31, 1995	$34,957,000	$76,905,000	$ 4,797,000	$ (67,643,000)	$49,016,000
Year ended December 31, 1994	$28,444,000	$58,347,000	$ --	$ (51,834,000)	$34,957,000

INDEX TO EXHIBITS

10.4 Agreement effective January 1, 1997, to renew Advisory Agreement, dated as of December 24, 1986, between Universal Health Realty Income Trust and UHS of Delaware, Inc.

10.27 Amendment No. 2 to Credit Agreement, dated as of May 10, 1996, among Universal Health Services, Inc., Certain Participating Banks and Morgan Guaranty Trust Company of New York, as Agent.

11. Statement re: computation of per share earnings.

22. Subsidiaries of Registrant.

24. Consent of Independent Public Accountants.

27. Financial Data Schedule.

[LETTERHEAD OF UNIVERSAL HEALTH APPEARS HERE]

January 10, 1997

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

Dear Alan:

The Board of Trustees of Universal Health Realty Income Trust at their December 2, 1996, 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, 1997, upon the same terms and conditions. Please acknowledge UHS of Delaware, Inc.'s acceptance of this offer by signing in the space provided below and returning one copy of this letter to me.

Sincerely yours,

/s/ Kirk E. Gorman
Kirk E. Gorman
President and Secretary

cc: Warren J. Nimetz, Esquire
Charles Boyle

Agreed to and Accepted:

UHS of Delaware, Inc.

By:/s/ Alan B. Miller

Alan B. Miller, President

EXECUTION COPY

AMENDMENT NO. 2 TO CREDIT AGREEMENT

AMENDMENT dated as of May 10, 1996 among UNIVERSAL HEALTH SERVICES, INC. (the "Borrower"), the BANKS listed on the signature pages hereof (the "Banks") and MORGAN GUARANTY TRUST COMPANY OF NEW YORK, as Agent (the "Agent").

W I T N E S S E T H :

WHEREAS, the parties hereto have heretofore entered into a Credit Agreement dated as of August 2, 1994 (as heretofore amended, the "Agreement"); and

WHEREAS, the parties hereto desire to amend the Agreement as set forth below;

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1. Definitions; References. Unless otherwise specifically defined herein, each term used herein which is defined in the Agreement shall have the meaning assigned to such term in the Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Agreement shall from and after the date hereof refer to the Agreement as amended hereby.

SECTION 2. Amendment of the Agreement.

(a) Section 1.01 is amended by the addition of the following defined term in its appropriate alphabetical position:

> "Amarillo Acquisition" means the acquisition by the Borrower, or an affiliate, of the assets and business of Northwest Texas Healthcare System, comprising a 275 licensed bed acute care hospital, an 85 licensed bed psychiatric hospital, 2 out-patient clinics and a medical office building in Amarillo, Texas.

(b) Clause (i) of the proviso to the definition of Consolidated Capital Expenditures is amended to read as follows:

> (i) to exclude any such additions (up to a maximum aggregate amount of $375,000,000) attributable to the Aiken Acquisition, the Manatee Acquisition or the Amarillo Acquisition and

(c) Section 5.13(b) is amended to add the name of "the Northwest Texas Healthcare System" to the list of facilities that begins with "the McAllen Medical Center".

SECTION 3. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 4. Counterparts; Effectiveness. 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. This Amendment shall become effective on and as of the date hereof provided that the Agent shall have received duly executed counterparts hereof signed by the Borrower and the Required Banks with the subscribed consent of each of the Subsidiary Guarantors (or, in the case of any party as to which an executed counterpart shall not have been received, the Agent shall have received telegraphic, telex, telecopy or other written confirmation from such party of execution of a counterpart hereof by such party).

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: [SIGNATURE APPEARS HERE]

Title: Senior Vice President

MORGAN GUARANTY TRUST COMPANY OF NEW YORK

By:

Title:

CHEMICAL BANK

By:

Title:

BANK OF AMERICA ILLINOIS

By:

Title:

NATIONSBANK OF NORTH CAROLINA, N.A.

By:

Title:

PNC BANK, NATIONAL ASSOCIATION

By:

Title:

FIRST FIDELITY BANK, N.A.

By:

Title:

CORESTATES BANK, N.A.

By:

Title:

MORGAN GUARANTY TRUST COMPANY OF NEW YORK,
as Agent

By:

Title:

The undersigned Subsidiary Guarantors parties to the Guaranty Agreement (as defined in the Agreement referred to the foregoing Amendment) hereby consent to the foregoing Amendment.

ASC of Chicago, Inc.
ASC of Corona, Inc.
ASC of Las Vegas, Inc.
ASC of Littleton, Inc.
ASC of Midwest City, Inc.
ASC of New Albany, Inc.
ASC of Palm Springs, Inc.
ASC of Ponca City, Inc.
ASC of Springfield, Inc.
ASC of St. George, Inc.
Aiken Regional Medical Centers, Inc.
The Arbour, Inc.
Auburn General Hospital, Inc. (formerly UHS of Auburn, Inc.)
The BridgeWay, Inc.
Children's Hospital of McAllen, Inc.
Comprehensive Occupational and Clinical Health, Inc.
Dallas Family Hospital, Inc.
Del Aim Hospital, Inc.
Doctors' General Hospital, Ltd. d/b/a Universal Medical Center
Doctors' Hospital of Shreveport, Inc.
Forest View Psychiatric Hospital, Inc.
Glen Oaks Hospital, Inc.
Health Care Finance & Construction Corp.
HRI Clinics, Inc.
HRI Hospital, Inc.
Inland Valley Regional Treatment Center, Inc.
La Amistad Residential Treatment Center, Inc.
McAllen Medical Center, Inc.
Meridell Achievement Center, Inc.
Merion Building Management, Inc.
The Pavilion Foundation
Relational Therapy Clinic, Inc.
River Crest Hospital, Inc.
River Oaks, Inc.
River Parishes Internal Medicine, Inc.
Southwest Dallas Hospital, Inc.
Sparks Family Hospital, Inc.
Tonopah Health Services, Inc.
Turning Point Care Center, Inc.
Two Rivers Psychiatric Hospital, Inc.
UHS Holding Company, Inc.
UHS/IPA, Inc.
UHS International, Inc.
UHS Las Vegas Properties, Inc.
UHS of Belmont, Inc.

UHS of Bethesda, Inc.
UHS of Columbia, Inc.
UHS of De La Ronde, Inc.
UHS of Delaware, Inc.
UHS of Florida, Inc.
UHS of Fuller, Inc.
UHS of Illinois, Inc.
UHS of London, Inc.
UHS of Manatee, Inc. (formerly Doctors' Hospital of Hollywood, Inc.)
UHS of New Orleans, Inc. d/b/a Chalmette Hospital and River Parishes Hospital
UHS of New York, Inc.
UHS of Odessa, Inc.
UHS of Plantation, Inc.
UHSR Corporation
UHS Receivables Corp.
UHS of River Parishes, Inc.
UHS of Reverton, Inc.
UHS of Springfield, Inc.
UHS of Vermont, Inc.
UHS of Waltham, Inc.
Universal HMO, Inc.
Universal Health Network, Inc.
Universal Health Pennsylvania Properties, Inc.
Universal Health Recovery Centers, Inc., d/b/a KeyStone Center
Universal Health Services of Cedar Hill, Inc.
Universal Health Services of Concord, Inc.
Universal Treatment Centers, Inc.
Valley Hospital Centers, Inc.
Valley Hospital Medical Center, Inc.
Victoria Regional Medical Center, Inc.
Wellington Regional Medical Center Incorporated
Westlake Medical Center, Inc.

By: [SIGNATURE APPEARS HERE]

Title

Exhibit 11

Universal Health Services, Inc.
and Subsidiaries
Computation of Earnings Per Share
Year Ended December 31, 1994

	Number of Shares
Weighted Average Shares:	
Class A common	1,139,123
Class B common	12,171,454
Class C common	114,482
Class D common	26,223
Total	13,451,282
Less: Effect of shares repurchased	(103,510)
Less: Incremental number of shares of restricted stock excluded from EPS computation	(35,643)
Effect of shares issued	641,984
100% Stock dividend paid on May 17, 1996	13,954,113
	27,908,226
Common Stock Equivalents:	
Assumed conversion of 7 1/2% convertible debentures issued in April 1983	338,818
Assumed conversion of options to purchase common stock	95,999
100% Stock dividend paid on May 17, 1996	434,817
Weighted average shares - fully diluted	28,777,860
Income:	
Net Income	$28,719,735
Interest expense, net of tax effect, on assumed conversion of 7 1/2% convertible debentures	$363,176
Income applicable to Common Stock - Fully Diluted	$29,082,911
Earnings per Common and Common Equivalent Share: Fully Diluted	$1.01

SUBSIDIARIES OF THE COMPANY

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
Aiken Regional Medical Centers, Inc.	South Carolina
The Arbour, Inc.	Massachusetts
Arbour Elder Services, Inc.	Massachusetts
ASC of Clarkston, Inc.	Michigan
ASC of Corona, Inc.	California
ASC of Las Vegas, Inc.	Nevada
ASC of Littleton, Inc.	Colorado
ASC of Midwest City, Inc.	Oklahoma
ASC of New Albany, Inc.	Indiana
ASC of Palm Springs, Inc.	California
ASC of Ponca City, Inc.	Oklahoma
ASC of Springfield, Inc.	Missouri
ASC of St. George, Inc.	Utah
Auburn Regional Medical Center, Inc.	Washington
The BridgeWay, Inc.	Arkansas
Children's Hospital of McAllen, Inc.	Texas
Comprehensive Occupational and Clinical Health, Inc.	Delaware
Del Amo Hospital, Inc.	California
Doctors' General Hospital, Ltd.	Florida
Doctors' Hospital of Shreveport, Inc.	Louisiana
Eye West Laser Vision, L.P.	Delaware

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
Forest View Psychiatric Hospital, Inc.	Michigan
Glen Oaks Hospital, Inc.	Texas
Health Care Finance & Construction Corp.	Delaware
HRI Clinics, Inc.	Massachusetts
HRI Hospital, Inc.	Massachusetts
Hope Square Surgical Center, L.P. (d/b/a Surgery Centers of the Desert)	Delaware
Inland Valley Regional Medical Center, Inc.	California
Internal Medicine Associates of Doctors' Hospital, Inc.	Louisiana
La Amistad Residential Treatment Center, Inc.	Florida
Manatee Memorial Hospital, L.P.	Delaware
McAllen Medical Center, Inc. (d/b/a Edinburg Regional Medical Center)	Texas
McAllen Medical Center Foundation (Non-Profit)	Texas
Meridell Achievement Center, Inc.	Texas
Merion Building Management, Inc.	Delaware
New Albany Outpatient Surgery, L.P. (d/b/a Surgical Center of New Albany)	Delaware
Northern Nevada Medical Center, L.P. (d/b/a Northern Nevada Medical Center)	Delaware
Northwest Texas Healthcare System, Inc.	Texas
The Pavilion Foundation	Illinois
Pueblo Medical Center, Inc.	Nevada

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
RCW of Edmond, Inc.	Oklahoma
Relational Therapy Clinic, Inc.	Louisiana
Renaissance Women's Center of Austin, L.P.	Delaware
Renaissance Women's Center of Edmond, L.L.C.	Oklahoma
River Crest Hospital, Inc.	Texas
River Oaks, Inc.	Louisiana
River Parishes Internal Medicine, Inc.	Louisiana
Sparks Family Hospital, Inc.	Nevada
St. George Surgical Center, L.P. (d/b/a St. George Surgery Center)	Delaware
St. Louis Behavioral Medicine Institute, Inc.	Missouri
Summerlin Medical Center, L.P.	Delaware
Surgery Center of Corona, L.P. (d/b/a Surgery Center of Corona)	Delaware
Surgery Center of Littleton, L.P. (d/b/a Littleton Day Surgery Center)	Delaware
Surgery Center of Midwest City, L.P. (d/b/a MD Physicians Surgicenter of Midwest City)	Delaware
Surgery Center of Odessa, L.P. (d/b/a Surgery Center of Texas)	Delaware
Surgery Center of Ponca City, L.P. (d/b/a Outpatient Surgical Center of Ponca City)	Delaware
Surgery Center of Springfield, L.P. (d/b/a Surgery Center of Springfield)	Delaware
Surgery Center of Waltham, Limited Partnership	Massachusetts

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
(d/b/a Surgery Center of Waltham)	
Tonopah Health Services, Inc.	Nevada
Turning Point Care Center, Inc. (d/b/a Turning Point Hospital)	Georgia
Two Rivers Psychiatric Hospital, Inc.	Delaware
UHS of Belmont, Inc.	Delaware
UHS of Bethesda, Inc.	Delaware
UHS of Columbia, Inc.	District of Columbia
UHS Croyden Limited	United Kingdom
UHS of DeLaRonde, Inc.	Louisiana
UHS of Delaware, Inc.	Delaware
UHS of Fayetteville, Inc.	Arkansas
UHS of Florida, Inc.	Florida
UHS of Fuller, Inc.	Massachusetts
UHS Holding Company, Inc.	Nevada
UHS of Illinois, Inc.	Illinois
UHS International Limited	United Kingdom
UHS Las Vegas Properties, Inc.	Nevada
UHS Leasing Company, Limited	United Kingdom
UHS London Limited	United Kingdom
UHS of Manatee, Inc.	Florida
UHS of New Orleans, Inc.	Louisiana

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
(d/b/a Chalmette Hospital and River Parishes Hospital)	
UHS of New York, Inc.	New York
UHS of Odessa, Inc.	Texas
UHS of Pennsylvania, Inc.	Pennsylvania
UHS of Plantation, Inc.	Florida
UHSR Corporation	Delaware
UHS Receivables Corp.	Delaware
UHS Recovery Foundation, Inc.	Pennsylvania
UHS of River Parishes, Inc.	Louisiana
UHS of Riverton, Inc.	Washington
UHS of Timberlawn, Inc.	Texas
UHS of Vermont, Inc.	Vermont
UHS of Waltham, Inc.	Massachusetts
Universal HMO, Inc.	Nevada
Universal Health Network, Inc.	Nevada
Universal Health Pennsylvania Properties, Inc.	Pennsylvania
Universal Health Recovery Centers, Inc. (d/b/a UHS KeyStone Center)	Pennsylvania
Universal Health Services of Cedar Hill, Inc.	Texas
Universal Health Services of Concord, Inc.	California
Universal Treatment Centers, Inc.	Delaware

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
Valley Hospital Medical Center, Inc.	Nevada
Valley Surgery Center, L.P. (d/b/a Goldring Surgery Center)	Delaware
Victoria Regional Medical Center, Inc.	Texas
Wellington Physician Alliances, Inc.	Florida
Wellington Regional Medical Center Incorporated	Florida
Westlake Medical Center, Inc.	California

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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. 2-98913), (File No. 33-43276), (File No. 33-49426), (File No. 33-49428), (File No.33-51671), (File No. 33-56575), (File No. 33-63291), and (File No. 333-13453).

ARTHUR ANDERSEN LLP

Philadelphia, PA
March 26, 1997

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UNIVERSAL HEALTH SERVICES
1,000

YEAR
DEC-31-1996
JAN-01-1996
DEC-31-1996
288
0
175,762
30,398
22,019
193,953
839,564
271,936
965,795
140,079
275,634
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0
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452,659
965,795
0
1,190,210
0
878,588
113,488
96,872
21,258
80,004
29,333
50,671
0
0
0
50,671
1.64
1.64

THE EPS-PRIMARY AND EPS-FULLY DILUTED REFLECT THE IMPACT OF A TWO-FOR-ONE STOCK SPLIT IN THE FORM OF A 100% STOCK DIVIDEND WHICH WAS PAID IN MAY 1996.