FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended March 31, 1999

OR

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

For the transition period from ....to..........
Commission file number 1-10765

UNIVERSAL HEALTH SERVICES, INC.
(Exact name of registrant as specified in its charter)

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

UNIVERSAL CORPORATE CENTER
367 SOUTH GULPH ROAD
KING OF PRUSSIA, PENNSYLVANIA 19406
(Address of principal executive office) (Zip Code)

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common shares outstanding, as of April 30, 1999:

Class	Shares
Class A	2,057,929
Class B	29,410,536
Class C	207,230
Class D	27,953

UNIVERSAL HEALTH SERVICES, INC.

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PART I. FINANCIAL INFORMATION

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

	THREE MONTHS ENDED MARCH 31,	
	1999	1998
Net revenues	$520,095	$463,117
Operating charges:		
Operating expenses	203,107	180,951
Salaries and wages	178,634	161,125
Provision for doubtful accounts	40,926	37,266
Depreciation and amortization	26,978	24,436
Lease and rental expense	12,279	11,405
Interest expense, net	6,482	6,307
	468,406	421,490
Income before minority interests and income taxes	51,689	41,627
Minority interests in earnings of consolidated entities	3,994	1,748
Income before income taxes	47,695	39,879
Provision for income taxes	17,673	14,229
Net income	$ 30,022	$ 25,650
Earnings per common share - basic	$ 0.94	$ 0.79
Earnings per common share - diluted	$ 0.92	$ 0.77
Weighted average number of common shares - basic	32,007	32,516
Weighted average number of common share equivalents	681	794
Weighted average number of common shares and equivalents - diluted	32,688	33,310

See accompanying notes to these condensed consolidated financial statements.

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

	MARCH 31, 1999 (UNAUDITED)	DECEMBER 31, 1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 10,508	$ 1,260
Accounts receivable, net	276,506	256,354
Supplies	38,771	38,842
Deferred income taxes	13,302	10,838
Other current assets	13,984	12,321
Total current assets	353,071	319,615
Property and equipment	1,171,330	1,161,939
Less: accumulated depreciation	(412,962)	(396,530)
	758,368	765,409
Funds restricted for construction	42,497	43,413
	800,865	808,822
OTHER ASSETS:		
Excess of cost over fair value of net assets acquired	274,062	279,141
Deferred charges	13,640	13,533
Other	26,202	26,984
	313,904	319,658
	$ 1,467,840	$ 1,448,095
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 3,762	$ 4,082
Accounts payable and accrued liabilities	182,061	165,718
Federal and state taxes	18,239	253
Total current liabilities	204,062	170,053
Other noncurrent liabilities	83,530	80,172
Minority interest	128,330	129,423
Long-term debt, net of current maturities	389,851	418,188
Deferred Income taxes	24,085	23,252
COMMON STOCKHOLDERS' EQUITY:		
Class A Common Stock, 2,057,929 shares outstanding in 1999, 2,057,929 in 1998	21	21
Class B Common Stock, 29,503,748 shares outstanding in 1999, 29,901,218 in 1998	295	299
Class C Common Stock, 207,230 shares outstanding in 1999, 207,230 in 1998	2	2
Class D Common Stock, 28,062 shares outstanding in 1999, 28,788 in 1998	--	--
Capital in excess of par, net of deferred compensation of $304,000 in 1999 and $185,000 in 1998	202,457	221,500
Retained earnings	435,207	405,185
	637,982	627,007
	$ 1,467,840	$ 1,448,095

See accompanying notes to these condensed consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(000s omitted - unaudited)

	THREE MONTHS ENDED MARCH 31, 1999	THREE MONTHS ENDED MARCH 31, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 30,022	$ 25,650
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	26,978	24,436
Changes in assets & liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	(20,152)	(23,430)
Accrued interest	(2,578)	(1,683)
Accrued and deferred income taxes	17,644	10,144
Other working capital accounts	18,233	16,295
Other assets and deferred charges	(666)	(3,114)
Earnings of minority partners, net of losses	3,994	1,748
Other	(73)	(3,302)
Accrued insurance expense, net of commercial premiums paid	1,371	1,324
Payments made in settlement of self-insurance claims	(1,640)	(2,243)
NET CASH PROVIDED BY OPERATING ACTIVITIES	73,133	45,825
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment additions, net	(12,601)	(19,974)
Proceeds received from merger	--	23,084
Acquisition of business	--	(186,080)
NET CASH USED IN INVESTING ACTIVITIES	(12,601)	(182,970)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Reduction of long-term debt	(28,657)	--
Additional borrowings	--	144,144
Distributions to minority partners	(2,258)	(79)
Issuance of common stock	1,265	1,127
Repurchase of common shares	(21,634)	--
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(51,284)	145,192
INCREASE IN CASH AND CASH EQUIVALENTS	9,248	8,047
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,260	332
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 10,508	$ 8,379
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 9,060	$ 7,990
Income taxes paid, net of refunds	$ 101	$ 4,085

See accompanying notes to these condensed consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) GENERAL

The consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments which, in the opinion of the Company, are necessary to fairly present results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the accompanying disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the financial statements, accounting policies and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1998.

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

(2) OTHER NONCURRENT AND MINORITY INTEREST LIABILITIES

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

The minority interest liability consists primarily of a 27.5% outside ownership interest in three acute care facilities located in Las Vegas, Nevada and a 20% outside ownership in an acute care facility located in Washington D.C.

(3) COMMITMENT AND CONTINGENCIES

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

(4) SUBSEQUENT EVENTS

Subsequent to the first quarter of 1999, the Company acquired three behavioral health facilities located in Illinois, Indiana and New Jersey, for a combined purchase price of $26.6 million in cash plus additional contingent consideration of up to $2.5 million.

Also subsequent to March 31, 1999, the Company signed a definitive agreement to acquire the assets and operations of Doctor's Hospital of Laredo from Columbia/HCA Healthcare Corporation in exchange for the assets and operations of its Victoria Regional Medical Center. Final completion of the exchange is expected to occur during the second quarter of 1999.

(5) NEW ACCOUNTING PRONOUNCEMENT

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

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

The Company expects to adopt Statement 133 in January 2000 and has not yet quantified the impact on its financial statements. However, the Statement could increase the volatility in earnings and other comprehensive income.

(6) SEGMENT REPORTING (UNAUDITED)

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

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

	THREE MONTHS ENDED MARCH 31, 1999			
	ACUTE CARE SERVICES	BEHAVIORAL HEALTH SERVICES	OTHER	TOTAL CONSOLIDATED
	(Dollar amounts in thousands)			
Gross inpatient revenues	$720,137	$88,690	$6,108	$814,935
Gross outpatient revenues	$237,605	$23,601	$25,059	$286,265
Total net revenues	$441,273	$59,638	$19,184	$520,095
EBITDAR (A)	$97,150	$10,497	($10,219)	$97,428
Total assets	$1,236,830	$125,495	$105,515	$1,467,840
Licensed beds	4,824	1,797	--------	6,621
Available beds	4,109	1,782	--------	5,891
Patient days	254,330	95,744	--------	350,074
Admissions	53,187	8,648	--------	61,835
Average length of stay	4.8	11.1	--------	5.7

	THREE MONTHS ENDED MARCH 31, 1998			
	ACUTE CARE SERVICES	BEHAVIORAL HEALTH SERVICES	OTHER	TOTAL CONSOLIDATED
	(Dollar amount in thousands)			
Gross inpatient revenues	$608,710	$84,273	$4,965	$697,948
Gross outpatient revenues	$197,863	$22,214	$16,032	$236,109
Total net revenues	$392,941	$56,795	$13,381	$463,117
EBITDAR (A)	$86,804	$9,806	($12,835)	$83,775
Total assets	$1,216,675	$132,802	$115,227	$1,464,704
Licensed beds	4,370	1,779	--------	6,149
Available beds	3,753	1,764	--------	5,517
Patient days	218,626	89,428	--------	308,054
Admissions	44,870	8,093	--------	52,963
Average length of stay	4.9	11.1	--------	5.8

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

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

FORWARD-LOOKING STATEMENTS

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

RESULTS OF OPERATIONS

Net revenues increased 12% to $520 million for the three months ended March 31, 1999 as compared to $463 million for the three month period ended March 31, 1998. The $57 million increase in net revenues was due primarily to: (i) a $27 million or 6.0% increase in net revenues at the Company's acute care and behavioral health care facilities owned during both periods, and; (ii) the acquisition of four acute care facilities located in Puerto Rico and Las Vegas, Nevada which were acquired during the first quarter of 1998.

Earnings before interest, income taxes, depreciation, amortization and lease and rental expense (before deducting minority interests in earnings of consolidated entities) ("EBITDAR") increased to $97 million for the three month period ended March 31, 1999 from $84 million in the comparable prior year quarter. Overall operating margins were 18.7% in the 1999 first quarter as compared to 18.1% in the 1998 quarter ended March 31, 1998. The increase in the overall operating margin was primarily due to an increase in the operating margins at the Company's acute care and behavioral health care facilities owned during both periods.

ACUTE CARE SERVICES

Net revenues from the Company's acute care hospitals, ambulatory treatment centers and specialized women's health centers accounted for 88% of consolidated net revenues in each of the quarters ended March 31, 1999 and 1998. Net revenues at the Company's acute care facilities owned in both quarters ended March 31, 1999 and 1998 increased 6.1% in the 1999 first quarter as compared to the comparable 1998 period. The increase in net revenue was due primarily to a 7.4% increase in admissions and a 5.1% increase in patient days at these facilities. The average length of stay at the acute care facilities owned during both periods decreased 2.1% to 4.8 days for the three month period ended March 31, 1999 as compared to 4.9 days in the comparable prior year quarter.

The decrease in the average length of stay at the Company's facilities was due primarily to improvement in case management of Medicare and Medicaid patients and an increasing shift of patients into managed care plans which generally have lower lengths of stay. The increase in net revenues at the Company's acute care facilities was caused primarily by an increase in inpatient admissions and an increase in outpatient activity. Outpatient activity continues to increase as gross outpatient revenues at the Company's acute care facilities owned in both periods ended March 31, 1999 and 1998 increased 14% during the three month period ended March 31, 1999 as compared to the comparable prior year quarter and comprised 26% of the Company's acute care gross patient revenue in the 1999 first quarter as compared to 25% in the quarter ended March 31, 1998.

The increase in outpatient revenues is primarily the result of advances in medical technologies and pharmaceutical improvements, which allow more services to be provided on an outpatient basis, and increased pressure from Medicare, Medicaid, managed care companies and other insurers to reduce hospital stays and provide services, where possible, on a less expensive outpatient basis. The hospital industry in the United States as well as the Company's acute care facilities continue to have significant unused capacity which has created substantial competition for patients. Inpatient utilization continues to be negatively affected by payor-required, pre-admission authorization and by payor pressure to maximize outpatient and alternative healthcare delivery services for less acutely ill patients. The Company expects the increased competition, admission constraints and payor pressures to continue. The Company's ability to maintain its historical rate of net revenue growth and operating margins is dependent upon its ability to successfully respond to these trends as well as reductions in spending on governmental health care programs.

BEHAVIORAL HEALTH SERVICES

Net revenues from the Company's behavioral health services facilities accounted for 12% of consolidated net revenues in each of the three month periods ended March 31, 1999 and 1998. Net revenues at the Company's behavioral health services facilities owned in both periods increased 5.0% for the three month period ended March 31, 1999 as compared to the comparable prior year quarter. Admissions and patient days at these facilities increased 6.9% and 7.1%, respectively, during the three month period ended March 31, 1999 as compared to the comparable prior year period. The average length of stay at the behavioral health services facilities owned in both periods increased slightly to 11.1 days during the 1999 first quarter as compared to 11.0 days in the comparable prior year period.

Despite the slight increase in the average length of stay during the 1999 first quarter as compared to the comparable prior year quarter, the Company's behavioral health facilities have generally experienced decreases in length of stay during the past few years as a result of continued practice changes in the delivery of behavioral health services and continued cost containment pressures from payors, including managed care companies, which includes a greater emphasis on the utilization of outpatient services. Providers participating in managed care programs agree to provide services to patients for a discount from established rates which generally results in pricing concessions by the providers and lower margins. Additionally, managed care companies generally encourage alternatives to inpatient treatment. Management of the Company has responded to these trends by continuing to develop and market new outpatient treatment programs. Gross outpatient revenues at the Company's behavioral health services facilities owned in both periods increased 6% in the three month period ended March 31, 1999 as compared to the comparable prior year period and comprised 21% of the Company's behavioral health services gross patient revenues in each of the quarters ended March 31, 1999 and 1998.

OTHER OPERATING RESULTS

The Company recorded minority interest expense in the earnings of consolidated entities amounting to $4.0 million for the three months ended March 31, 1999 and $1.7 million for the three month period ended March 31, 1998. The minority interest expense recorded during both periods consists primarily of the minority ownership's share of the net income of four acute care facilities, three of which are located in Las Vegas, Nevada (one of which was purchased during the 1998 first quarter) and one located in Washington, DC.

Depreciation and amortization expense increased 10% or $2.5 million for the three months ended March 31, 1999 as compared to the comparable prior year quarter. The increase was due primarily to the four acute care hospitals acquired during the first quarter of 1998 (three in Puerto Rico and one in Las Vegas). Interest expense increased 3% or $175,000 during the 1999 first quarter over the comparable prior year period.

The effective tax rate was 37.1% for the three months ended March 31, 1999 as compared to 35.7% for the three months ended March 31, 1998. The increase in the effective tax rate during the 1999 first quarter as compared to the prior year quarter was due to a reduction in the tax benefits related to the financing of employee benefit programs.

GENERAL TRENDS

An significant portion of the Company's revenue is derived from fixed payment services, including Medicare and Medicaid which accounted for 43% and 44% of the Company's net patient revenues during the three month periods ended March 31, 1999 and 1998, respectively. The Medicare program reimburses the Company's hospitals primarily based on established rates by a diagnosis related group for acute care hospitals and by cost based formula for behavioral health facilities. Historically, rates paid under Medicare's prospective payment system ("PPS") for inpatient services have increased, however, these increases have been less than cost increases. Pursuant to the terms of The Balanced Budget Act of 1997 (the "1997 Act"), there were no increases in the rates paid to hospitals for inpatient care through September 30, 1998. The Company expects the modest rate increases that became effective on October 1, 1998 will be more than offset by the negative impact of converting reimbursement on skilled nursing facility patients from a cost based reimbursement to a prospective payment system and from lower DRG payments on certain patient transfers mandated by the 1997 Act. Reimbursements for bad debt expense and capital costs as well as other items have been reduced. Outpatient reimbursement for Medicare patients is scheduled to convert to a PPS during the second quarter of 2000. Since final provisions of the outpatient Medicare PPS are not yet available, the Company can not completely estimate the resulting impact on its future results of operations.

During the first quarter of 1999, the President submitted a proposal which included additional reductions in Medicare payments to hospitals, nursing homes and other providers amounting to $9.5 billion over a five year period. Approximately $4.5 billion of the proposed Medicare reductions would cut the growth of Medicare payments to hospitals over a five year period. While the Company is unable to predict whether this most recent proposal, or any other future health reform legislation, will ultimately be enacted at the federal or state level, the Company expects continuing pressure to limit expenditures by governmental healthcare programs. Further changes in the Medicare or Medicaid programs and other proposals to limit healthcare spending could have a material adverse impact upon the Company's results of operations and the healthcare industry.

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

In Texas, a law has been passed which mandates that the state senate apply for a waiver from current Medicaid regulations to allow the state to require that certain Medicaid participants be serviced through managed care providers. The Company is unable to predict whether Texas will be granted such a waiver or the effect on the Company's business of such a waiver. Upon meeting certain conditions, and serving

a disproportionately high share of Texas' and South Carolina's low income patients, three of the Company's facilities located in Texas and one facility located in South Carolina became eligible and received additional reimbursement from each state's disproportionate share hospital fund. Included in the Company's financial results was an aggregate of $10.1 million for the three month period ended March 31, 1999 and $8.6 million for the three month period ended March 31, 1998. These programs are scheduled to terminate in the third quarter of 1999 and although these programs have been renewed annually in the past, the Company cannot predict whether these programs will continue beyond their scheduled termination date. However, failure to renew these programs at their current levels could have a material adverse effect on the Company's future results of operations.

In addition to the Medicare and Medicaid programs, other payors, including managed care companies, continue to actively negotiate the amounts they will pay for services performed. In general, the Company expects the percentage of its business from managed care programs, including health maintenance organizations and preferred provider organizations to grow. The consequent growth in managed care networks and the resulting impact of these networks on the operating results of the Company's facilities vary among the markets in which the Company operates.

YEAR 2000 ISSUE

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $73 million for the three months ended March 31, 1999 as compared to $46 million for the three month period ended March 31, 1998. The $27 million net increase during the 1999 first quarter as compared to the comparable prior year quarter was primarily attributable to: (i) a $7 million favorable increase in net income plus the addback of depreciation and amortization expense; (ii) a $4 million favorable decrease in income tax payments, net of refunds, and; (iii) $16 million of other net favorable working capital changes.

During the first three months of 1999, the Company spent approximately $13 million to finance capital expenditures at its existing hospitals as compared to $20 million in the prior year three month period. During the first quarter of 1998, the Company completed its acquisition of three acute care hospitals located in Puerto Rico for a combined purchase price of $187 million. These acquisitions were financed with funds borrowed under the Company's revolving credit facility. Also during the first quarter of 1998, the Company contributed substantially all of the assets, liabilities and operations of Valley Hospital Medical Center, a 417-bed acute care facility, and Summerlin Hospital Medical Center, a 148-bed acute care facility in exchange for a 72.5% interest in a series of newly-formed limited liability companies ("LLCs"). Quorum Health Group, Inc. ("Quorum") holds the remaining 27.5% interest in the LLCs. Quorum obtained its interest by contributing substantially all of the assets, liabilities and operations of Desert Springs Hospital, a 241-bed acute care facility and $11 million of net cash.

During the third quarter of 1998, the Company's Board of Directors approved a stock repurchase program under which the Company is authorized to purchase up to two million shares or approximately 6% of its outstanding Class B Common Stock. Pursuant to this program, the Company repurchased 520,679 shares at an average repurchase price of $41.55 per share ($21.6 million in the aggregate) during the three months ended March 31, 1999. Subsequent to March 31, 1999, the Company repurchased an additional 155,000 shares at an average repurchase price of $38.71 per share ($6.0 million in the aggregate). Since inception of this program through April 30, 1999, the Company repurchased 1,256,179 shares at an average repurchase price of $41.83 per share ($52.5 million in the aggregate).

As of March 31, 1999, the Company had $222 million of unused borrowing capacity under the terms of its $400 million revolving credit agreement which matures in July 2002 and provides for interest at the Company's option at the prime rate, certificate of deposit plus 3/8% to 5/8%, Euro-dollar plus 1/4% to 1/2% or money market. As of March 31, 1999, the Company had $5 million of unused borrowing capacity under the terms of its $100 million, annually renewable, commercial paper program. The Company's total debt as a percentage of total capitalization was 38% at March 31, 1999 and 40% at December 31, 1998.

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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the quantitative and qualitative disclosures in 1999. Reference is made to Item 7 in the Annual Report on Form 10-K for the year ended December 31, 1998.

PART II. OTHER INFORMATION

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

27. Financial Data Schedule

(b) Reports on Form 8-K

None

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

All other items of this Report are inapplicable.

SIGNATURE

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

Universal Health Services, Inc.
(Registrant)

Date: May 13, 1999

/s/ Kirk E. Gorman

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

(Principal Financial Officer and Duly Authorized Officer).

5
1,000
U.S. DOLLARS

3-MOS
DEC-31-1999
JAN-01-1999
MAR-31-1999
1
10,508
0
276,506
0
38,771
353,071
1,213,827
412,962
1,467,840
204,062
389,851
0
0
318
637,664
1,467,840
0
520,095
0
381,741
43,251
40,926
6,482
47,695
17,673
30,022
0
0
0
30,022
$0.94
$0.92