FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended September 30, 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 number 0-10454

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common shares outstanding, as of October 31, 1996:

Class A	2,065,019
Class B	29,788,444
Class C	207,640
Class D	37,335

UNIVERSAL HEALTH SERVICES, INC.

I N D E X

PART I. FINANCIAL INFORMATION

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995	1996	1995
Net revenues	$303,479	$234,144	$862,089	$669,024
Operating charges:				
Operating expenses	118,127	92,068	330,077	260,629
Salaries and wages	107,568	83,120	303,399	238,758
Provision for doubtful accounts	26,411	21,823	72,809	55,065
Depreciation and amortization	19,210	13,218	50,714	36,276
Lease and rental expense	9,441	9,248	28,419	26,796
Interest expense, net	5,223	3,368	15,843	6,409
	285,980	222,845	801,261	623,933
Income before income taxes	17,499	11,299	60,828	45,091
Provision for income taxes	6,214	4,070	21,826	16,466
Net income	$ 11,285	$ 7,229	$ 39,002	$ 28,625
Earnings per common and common share equivalents:	$ 0.34	$ 0.26	$ 1.29	$ 1.02
Weighted average number of common shares and equivalents:	32,849	28,116	30,173	28,008

See accompanying notes to these condensed consolidated financial statements.

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

	SEPTEMBER 30, 1996 (UNAUDITED)	DECEMBER 31, 1995
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 105	$ 34
Accounts receivable, net	135,989	114,163
Supplies	21,451	18,207
Deferred income taxes	10,886	18,989
Other current assets	4,970	5,529
Total current assets	173,401	156,922
Property and equipment	824,421	641,528
Less: accumulated depreciation	(264,147)	(248,540)
	560,274	392,988
OTHER ASSETS:		
Excess of cost over fair value of net assets acquired	151,834	136,206
Deferred income taxes	18,660	17,283
Deferred charges	14,119	11,466
Other	41,809	33,186
	226,422	198,141
	$ 960,097	$ 748,051
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 8,095	$ 7,125
Accounts payable and accrued liabilities	151,154	126,018
Federal and state taxes	1,489	1,874
Total current liabilities	160,738	135,017
Other noncurrent liabilities	84,074	78,248
Long-term debt, net of current maturities	274,430	237,086
COMMON STOCKHOLDERS' EQUITY:		
Class A Common Stock, 2,065,019 shares outstanding in 1996, 1,092,527 in 1995	21	11
Class B Common Stock, 29,780,400 shares outstanding in 1996, 12,658,818 in 1995	298	127
Class C Common Stock, 207,640 shares outstanding in 1996, 109,622 in 1995	2	1
Class D Common Stock, 39,083 shares outstanding in 1996, 20,503 in 1995	--	--
Capital in excess of par, net of deferred compensation of $452,000 in 1996 and $941,000 in 1995	193,852	89,881
Retained earnings	246,682	207,680
	440,855	297,700
	$ 960,097	$ 748,051

See accompanying notes to these condensed consolidated financial statements.

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

	NINE MONTHS ENDED SEPTEMBER 30, 1996	NINE MONTHS ENDED SEPTEMBER 30, 1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 39,002	$ 28,625
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	50,714	36,276
Provision for self-insurance reserves	11,608	11,106
Changes in assets & liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	9,282	14,927
Accrued interest	(3,504)	(6)
Accrued and deferred income taxes	9,592	(13,766)
Other working capital accounts	18,287	8,684
Other assets and deferred charges	(7,015)	(7,377)
Other	(2,050)	1,515
Payments made in settlement of self-insurance claims	(6,157)	(5,349)
NET CASH PROVIDED BY OPERATING ACTIVITIES	119,759	74,635
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment additions, net	(79,187)	(38,473)
Acquisition of businesses	(168,429)	(187,346)
Notes receivable related to acquisitions	(7,000)	--
Acquisition of assets held for lease	--	(3,062)
NET CASH USED IN INVESTING ACTIVITIES	(254,616)	(228,881)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additional borrowings	34,655	152,662
Issuance of common stock, net of issuance costs	100,273	960
NET CASH PROVIDED BY FINANCING ACTIVITIES	134,928	153,622
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	71	(624)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	34	780
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 105	$ 156
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 19,347	$ 6,415
Income taxes paid, net of refunds	$ 12,456	$ 30,232

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, 1995.

(2) EARNINGS PER SHARE

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 on May 17, 1996 to shareholders of record as of May 6, 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 the three and nine months ended September 30, 1996 and 1995 have been adjusted to reflect the two for one stock split.

(3) UNUSUAL ITEMS

Included in operating expenses during the 1995 nine month period was a $2.7 million pre-tax charge related to the Company's divestiture of two acute care hospitals in connection with the acquisition of a 225-bed acute care facility located in Aiken, South Carolina. Operating expenses for the nine months ended September 30, 1995 were favorably impacted by reductions in certain reserve balances totaling $1.9 million.

(4) OTHER LIABILITIES

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

(5) COMMITMENTS AND CONTINGENCIES

Under certain agreements, the Company has committed or guaranteed an aggregate of $16.4 million related principally to the Company's self-insurance programs and as support for various debt instruments and loan guarantees.

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 and proposed acquisitions and the ability to continue to finance its growth on favorable terms.

RESULTS OF OPERATIONS

Net revenues increased 30% or $69 million for the three months ended September 30, 1996 and 29% or $193 million for the nine months ended September 30, 1996 over the comparable prior year periods due primarily to the acquisitions of: (i) a 360-bed medical complex located in Amarillo, Texas acquired during the second quarter of 1996; (ii) five behavioral health centers located in Pennsylvania and Texas acquired during the second and third quarters of 1996, and; (iii) a 225-bed acute care facility and a 512-bed acute care facility, both of which were acquired during the third quarter of 1995. Also contributing to the increase in net revenues was an increase in net revenues at hospital facilities owned during both periods as revenues at these facilities increased 2% or $4 million for the three months ended September 30, 1996 and 3% or $15 million for the nine months ended September 30, 1996 over the comparable prior year periods.

Earnings before interest, income taxes, depreciation, amortization and lease and rental expense (EBITDAR) increased 38% or $14 million to $51 million for the three months ended September 30, 1996 as compared to $37 million in the comparable prior year period and 36% or $41 million to $156 million for the nine months ended September 30, 1996 as compared to $115 million in the comparable prior year period. Overall operating margins were 16.9% and 15.9% for the three months ended September 30, 1996 and 1995 and 18.1% and 17.1% for the nine months ended September 30, 1996 and 1995, respectively.

ACUTE CARE SERVICES

Net revenues from the Company's acute care hospitals and ambulatory treatment centers as a percentage of consolidated net revenues accounted for 85% and 86% for the three month periods ended September 30, 1996 and 1995, respectively, and 86% for each of the nine month periods ended September 30, 1996 and 1995. Inpatient admissions at the Company's acute care hospitals owned during both periods decreased 2% during the three month period ended September 30, 1996 as compared to the comparable prior year period and increased 2% during the nine month period ended September 30, 1996 as compared to the nine month period in the prior year. Patient days at these facilities decreased 5% and 2% for the three and nine month periods ended September 30, 1996 as compared to the comparable prior year periods, respectively, while the length of stay decreased 4% and 3% for the three and nine month periods ended September 30, 1996 as compared to the comparable prior year periods, respectively. Despite the decline in patient days and the average length of stay at the Company's acute care facilities owned during both periods, net revenues increased 2% for the three month period ended September 30, 1996 and 3% for the nine month period ended September 30, 1996 over the comparable prior year periods due to an increase in outpatient activity.

Outpatient activity at the Company's acute care hospitals continues to increase as a 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.

BEHAVIORAL HEALTH SERVICES

Net revenues from the Company's behavioral health services facilities as a percentage of consolidated net revenues accounted for 15% and 13% for the three month periods ended September 30, 1996 and 1995, respectively, and 14% for each of the nine month periods ended September 30, 1996 and 1995. Net revenues at the Company's behavioral health centers owned during both periods increased 3% and 1% during the three and nine month periods ended September 30, 1996 over the comparable prior year periods, respectively. Inpatient admissions at these facilities increased 4% for the three month period ended September 30, 1996 as compared to the comparable prior year quarter while patient days decreased 5% during the 1996 third quarter as compared to the comparable 1995 quarter due to an 8% decrease in the average length of stay. For the nine month period ended September 30, 1996, inpatient admissions at the Company's behavioral health centers owned during both periods increased 6% over the comparable 1995 nine month period as patient days remained unchanged due to a 5% decrease in the average length of stay at these facilities. The reduction in the average length of stay is a result of changing practices in the delivery of behavioral health services and continued cost containment pressures from payors which includes a greater emphasis on the utilization of outpatient services. Management of the Company has responded to these trends by developing and marketing new outpatient treatment programs.

OTHER OPERATING RESULTS

Depreciation and amortization expense increased 45% or $6.0 million to $19.2 million for the three months ended September 30, 1996 and 40% or $14.4 million to $50.7 million for the nine months ended September 30,1996 as compared to the comparable prior year periods. These increases were due primarily to the Company's acquisition of one acute care hospital and five behavioral health centers acquired during the second and third quarters of 1996 and two acute care hospitals acquired during the third quarter of 1995. Partially offsetting these increases was the effect of three acute care facilities divested in July and October of 1995.

Interest expense increased $1.9 million to $5.2 million and $9.4 million to $15.8 million for the three and nine month periods ended September 30, 1996 over the comparable 1995 periods, respectively. The increased interest expense resulted from increased borrowings used to finance the purchase of the acute care hospital and five behavioral health centers acquired during the second and third quarters of 1996 and the acquisition of two acute care hospitals 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 purchase transactions mentioned above

The effective tax rates were 35.5% and 36.0% for the three month periods ended September 30, 1996 and 1995 and 35.9% and 36.5% for the nine month periods ended September 30, 1996 and 1995, respectively.

GENERAL TRENDS

An increased proportion of the Company's revenue is derived from fixed payment services, including Medicare and Medicaid which accounted for 49% and 46% of the Company's net patient revenues for the three months ended September 30, 1996 and 1995 and 50% and 46% of the Company's net patient revenues for the nine months ended September 30, 1996 and 1995, 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 psychiatric hospitals.

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.

In recent years, an increasing number of legislative initiatives have been introduced or proposed in Congress and in state legislatures that would effect major changes in the healthcare system, either nationally or at the state level. Among the proposals that have been introduced are price controls on hospitals, insurance market reforms to increase the availability of group health insurance to small businesses, requirements that all businesses offer health coverage to their employees and the creation of a government health insurance plan or plans that would cover all citizens and increase payments by beneficiaries. The Company cannot predict whether any of the above proposals or any other proposals will be adopted, and if adopted, no assurance can be given that the implementation of such reforms 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' low income patients, three of the Company's acute care facilities located in Texas (including Northwest Texas Health Systems which was acquired by the Company in May, 1996) became eligible and received additional reimbursement from the state's disproportionate share hospital fund. Included in the Company's financials was an aggregate of $4.7 million and $3.1 million for the three months ended September 30, 1996 and 1995 and $10.1 million and $10.6 million for the nine months ended September 30, 1996 and 1995, respectively, received pursuant to the terms of this program. The program is scheduled to terminate in August, 1997 and the Company cannot predict whether this program will continue beyond the scheduled termination date.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $119.8 million for the nine months ended September 30, 1996 and $74.6 million for the nine months ended September 30, 1995. The $45.2 million increase during the 1996 nine month period as compared to the 1995 comparable period was due primarily to a $25.3 million increase in net income plus the addback of non-cash charges (depreciation, amortization and provision for self-insurance reserves), a $17.8 million decrease in the payment of income taxes due to the 1995 period including the payment of previously deferred taxes related to the sale of two hospitals and $2.1 million of other net working capital changes. The net cash provided by operating activities substantially exceeded the scheduled maturities of long-term debt.

During the second quarter of 1996, the Company acquired an acute care hospital located in Amarillo, Texas for $125.5 million in cash and four behavioral health centers located in Pennsylvania for $39.5 million in cash and up to $5 million which is contingent upon future operating performance of the facilities. Also in connection with the acquisition of the four behavioral health centers, the Company advanced $7 million pursuant to the terms of a loan agreement which is scheduled to mature in September of 1997. During the third quarter of 1996, the Company completed the acquisition of a behavioral health center located in Texas for $3.3 million in cash. During the nine month period of 1996, the Company spent $79 million to finance capital expenditures, including $28 million spent on the construction of a new medical complex in Summerlin, Nevada and a new acute care facility in Edinburg, Texas.

The above mentioned acquisitions and capital expenditures were financed through the Company's operating cash flow ($119.8 million), additional borrowings under the Company's revolving credit facility ($34.7 million) and the net proceeds generated from the issuance of four million shares of the Company's Class B Common Stock issued at $26 per share (generating net proceeds of $99.1 million). The Company expects to finance all capital expenditures and acquisitions with internally generated funds and borrowed funds. As of September 30, 1996, the Company had $167 million of unused borrowing capacity under its commercial paper and revolving credit facilities.

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: November 8, 1996

/s/ Kirk E. Gorman

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

(Principal Financial Officer and
Duly Authorized Officer).

5
1000
U.S. DOLLARS

9-MOS
DEC-31-1996
JAN-01-1996
SEP-30-1996
1
105
0
135989
0
21451
173401
824421
264147
960097
160738
274430
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321
440534
960097
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862089
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633476
79133
72809
15843
60828
21826
39002
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0
0
39002
1.29
1.29

NOTE: The EPS-PRIMARY and EPS-fully diluted reflect the impact of a 2 for 1 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.