AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 31, 1996

REGISTRATION NO. 333-04445

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO
FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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
KING OF PRUSSIA, PENNSYLVANIA 19406
(610) 768-3300
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

ALAN B. MILLER, PRESIDENT
UNIVERSAL HEALTH SERVICES, INC.
UNIVERSAL CORPORATE CENTER
367 SOUTH GULPH ROAD
KING OF PRUSSIA, PENNSYLVANIA 19406
(610) 768-3300
(Name, address and telephone number of Agent for Service)

Copies of all communications, including all communications sent to the agent for service, should be sent to:

ANTHONY PANTALEONI, ESQ.	FREDERICK W. KANNER, ESQ.
FULBRIGHT & JAWORSKI L.L.P.	DEWEY BALLANTINE
666 FIFTH AVENUE	1301 AVENUE OF THE AMERICAS
NEW YORK, NEW YORK 10103	NEW YORK, NEW YORK 10019

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, check the following box: / /

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box: / /

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: / /

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: / /

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: /X/

CALCULATION OF REGISTRATION FEE

[CAPTION]

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT OF SHARES TO BE REGISTERED(1)	PROPOSED MAXIMUM AGGREGATE PRICE PER SHARE(2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(2)	AMOUNT OF REGISTRATION FEE
Class B Common Stock, $.01 par value............................	5,060,000	$28.00	$141,680,000	$48,855.17(3)

(1) Includes 660,000 shares which the Underwriters have the option to purchase from the Company to cover over-allotments, if any.

(2) Pursuant to Rule 457(c), the Proposed Maximum Aggregate Price per Share and the Proposed Maximum Aggregate Offering Price have been calculated on the basis of the average of the high and low sale prices of the Class B Common Stock as reported by the New York Stock Exchange on May 20, 1996.

(3) The registration fee has previously been paid.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THE REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION 8(A), MAY DETERMINE.

SUBJECT TO COMPLETION, DATED MAY 31, 1996

PROSPECTUS

4,400,000 SHARES

[UHS LOGO]

UNIVERSAL HEALTH SERVICES, INC.

CLASS B COMMON STOCK

Of the 4,400,000 shares of Class B Common Stock, $.01 par value per share ("Class B Common Stock" or the "Shares") offered hereby (the "Offering"), 4,000,000 are being sold by Universal Health Services, Inc. ("UHS" or the "Company") and 400,000 are being sold by Alan B. Miller (the "Selling Stockholder"). The Company will not receive any of the proceeds from the sale of Shares by the Selling Stockholder. The Class B Common Stock has limited voting rights with respect to the election of directors and certain other matters.

The Class B Common Stock is traded on the New York Stock Exchange (the "NYSE") under the symbol "UHS." On May 30, 1996, the closing price of the Company's Class B Common Stock on the NYSE was $24 3/8 per share.

SEE "RISK FACTORS" ON PAGE 7 FOR CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE SHARES OF CLASS B COMMON STOCK OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

[CAPTION]

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS(1)	PROCEEDS TO COMPANY (2)	PROCEEDS TO SELLING STOCKHOLDER
Per Share	$	$	$	$

Total(3)	$	$	$	$

(1) The Company and the Selling Stockholder have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."

(2) Before deducting estimated expenses of this Offering of $390,000 payable by the Company.

(3) The Company has granted the Underwriters a 30-day option to purchase up to 660,000 additional shares of Class B Common Stock solely to cover overallotments, if any. If such option is exercised in full, the total Price to Public, Underwriting Discounts and Commissions and Proceeds to Company will be $, $ and $, respectively. See "Underwriting."

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The shares of Class B Common Stock are offered by the several Underwriters named herein, subject to prior sale, when, as and if accepted by them and subject to certain conditions. It is expected that certificates for the shares of Class B Common Stock offered hereby will be available for delivery on or about , 1996 at the offices of Smith Barney Inc., 333 West 34th Street, New York, New York 10001.

SMITH BARNEY INC.
BEAR, STEARNS & CO. INC.
DILLON, READ & CO. INC.
DONALDSON, LUFKIN & JENRETTE SECURITIES CORPORATION
J.P. MORGAN & CO.

, 1996

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY STATE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK EXCHANGE, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

AVAILABLE INFORMATION

UHS is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Reports, proxy statements and other information filed by UHS may be inspected and copied at the public reference facilities maintained by the Commission, 450 Fifth Street, N.W., Judiciary Plaza, Room 1024, Washington, D.C. 20549; and at regional offices of the Commission at Northwestern Atrium Center, 500 West Madison, Suite 1400, Chicago, Illinois 60661 and at 7 World Trade Center, New York, New York 10048. Copies of such material may be obtained by mail from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. Such material may also be inspected and copied at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

As permitted by the rules and regulations of the Commission, this Prospectus omits certain information contained in the Registration Statement on Form S-3 (the "Registration Statement") of which this Prospectus is a part. For such information, reference is made to the Registration Statement and the exhibits thereto. Statements made in this Prospectus as to the contents of any contract, agreement or other document are not necessarily complete; with respect to each such contract, agreement or other document filed as an exhibit to the Registration Statement or incorporated by reference herein, reference is made to such contract, agreement or other document for a more complete description of the matter involved, and each such statement is qualified in its entirety by such reference.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

UHS hereby incorporates by reference in this Prospectus the following documents previously filed with the Commission pursuant to the Exchange Act: (i) the Company's Prospectus, dated July 18, 1995 as supplemented by a Supplement dated August 1, 1995, filed pursuant to Rule 424 under the Securities Act of 1933, as amended (the "Act") relating to securities registered on Form S-3, File No. 33-60287, declared effective on July 18, 1995; (ii) the Company's Annual Report on Form 10-K for the year ended December 31, 1995; and (iii) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.

Each document filed by UHS pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this Prospectus and prior to the termination of the offering of the Class B Common Stock pursuant hereto shall be deemed to be incorporated by reference in this Prospectus and to be a part of this Prospectus from the date of filing of such document. Any statement contained in this Prospectus or in a document incorporated or deemed to be incorporated by reference in this Prospectus shall be deemed to be modified or superseded for purposes of the Registration Statement and this Prospectus to the extent that a statement contained in this Prospectus or in any subsequently filed document that also is or deemed to be incorporated by reference in this Prospectus modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of the Registration Statement or this Prospectus.

UHS will provide without charge to each person to whom this Prospectus is delivered, upon the written or oral request of any such person, a copy of any or all of the documents that are incorporated by reference in this Prospectus, other than exhibits to such documents (unless such exhibits are specifically incorporated by reference into such documents). Requests should be directed to Investor Relations, Universal Health Services, Inc., Universal Corporate Center, 367 South Gulph Road, P.O. Box 61558, King of Prussia, Pennsylvania 19406-0958, telephone (610) 768-3300.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus or incorporated by reference herein. Unless otherwise indicated, all information in this Prospectus gives effect to a 2-for-1 stock split effected on May 17, 1996.

THE COMPANY

The principal business of Universal Health Services, Inc. (together with its subsidiaries, "UHS" or the "Company") is owning and operating acute care hospitals, behavioral health centers, ambulatory surgery centers and radiation oncology centers. The Company's strategy to enhance its profitability and to continue to provide high quality, cost-effective healthcare services includes the following key elements: (i) establish and maintain market leadership positions in small and medium-sized markets with favorable demographics; (ii) develop or participate in the leading integrated healthcare delivery system in each of its hospital's markets; (iii) develop and maintain strong relationships with physicians; (iv) maintain a low cost structure while providing high quality care; and (v) attract managed care contracts. Consistent with its strategy, the Company recently acquired three acute care hospitals which are market leaders. In July 1995, the Company acquired Aiken Regional Medical Centers ("Aiken"), a 225-bed medical complex, located in Aiken, South Carolina. In August 1995, the Company acquired Manatee Memorial Hospital ("Manatee"), a 512-bed acute care hospital, located in Bradenton, Florida. In May 1996, the Company acquired Northwest Texas Healthcare System ("Northwest Texas Health"), a 360-bed medical complex, located in Amarillo, Texas. See "Pro Forma Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations-- Liquidity and Capital Resources."

Currently, the Company operates or manages 35 hospitals, consisting of 16 acute care hospitals and 19 behavioral health centers, 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 26 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.

RECENT EVENTS

The Company plans to acquire or develop a number of additional hospitals. In April 1996, the Company entered into an agreement to acquire four behavioral health centers, all located in Pennsylvania (the "First Hospital Facilities"), as well as management contracts for seven other behavioral health centers, four of which are located in Pennsylvania, and 33 acres of land adjacent to the Company's Wellington Regional Medical Center (collectively, the "First Hospital Properties") for $36.5 million and up to $5 million which is contingent on future operating performance. See "Pro Forma Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources." Each of the First Hospital Facilities is the leading provider of behavioral health services in its market. The combination of the First Hospital Facilities and their related outpatient activities plus the four managed units in Pennsylvania create the largest comprehensive behavioral health network in Pennsylvania. The Company believes its historical success in operating behavioral health facilities, when coupled with the acquired contract management business as part of the First Hospital Properties, will make it an effective competitor for new contracts to manage behavioral health units of hospitals.

The Company is developing, with the participation of Howard Hughes Corporation, a medical complex including a 148-bed acute care hospital, an ambulatory surgery center, a medical office building and a diagnostic center in the community of Summerlin, Nevada, in western Las Vegas. When completed, this facility will enhance the Company's market presence in Las Vegas, which is located in the fastest growing MSA in the nation. (Source: Claritas Business Information Systems ("Claritas"), a market research firm, Forecast 1995-2000).

In January 1996, the Company broke ground on a 124-bed acute care hospital in Edinburg, Texas. Edinburg, located in close proximity to McAllen, Texas, will enhance the Company's market leadership in McAllen, which is located in the fourth fastest growing MSA in the nation. (Source: Claritas).

THE OFFERING

Class B Common Stock to be offered by the Company	4,000,000 shares
Class B Common Stock to be offered by the Selling Stockholder	400,000 shares
Class B Common Stock to be outstanding after the Offering	29,857,205 shares(1)
Use of proceeds	For repayment of debt incurred to fund acquisitions.
NYSE symbol	UHS

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(1) Based on the number of shares of Class B Common Stock outstanding as of May 17, 1996. Does not include 1,703,298 shares issuable upon exercise of outstanding options. Also does not include 1,867,572 shares of Class A Common Stock, 187,896 shares of Class C Common Stock and 40,368 shares of Class D Common Stock, all of which were outstanding on May 17, 1996. All of such shares are convertible, on a share-for-share basis, into Class B Common Stock. See "Description of Common Stock."

SUMMARY INCOME STATEMENT DATA

	YEARS ENDED DECEMBER 31,					(UNAUDITED) THREE MONTHS ENDED MARCH 31,		
	1992	1993	1994	1995	1995 PRO FORMA(1)	1995	1996	1996 PRO FORMA(1)
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)							
Statement of Income Data:								
Net revenues	$731,227	$761,544	$782,199	$931,126	$1,200,234	$220,715	$271,616	$320,200
Costs and expenses:								
Operating expenses	285,922	299,645	298,108	361,049	472,749	84,469	102,335	122,815
Salaries and wages	265,017	280,041	286,297	329,939	419,136	78,021	94,500	112,199
Provision for doubtful accounts	45,008	55,409	58,347	76,905	96,821	17,185	21,767	24,860
Depreciation and amortization	49,059	39,599	42,383	51,371	67,887	11,310	14,783	17,263
Lease and rental expense	33,854	34,281	34,097	36,068	37,029	8,772	9,405	9,666
Interest expense, net	11,414	8,645	6,275	11,195	24,613	1,614	4,648	5,655
Nonrecurring charges	--	8,828	9,763	11,610	14,200	--	--	--
Total operating charges	690,274	726,448	735,270	878,137	1,132,435	201,371	247,438	292,458
Income before income taxes	40,953	35,096	46,929	52,989	67,799	19,344	24,178	27,742
Provision for income taxes	20,933	11,085	18,209	17,505	25,120	7,503	8,677	10,041
Net income	$20,020	$24,011	$28,720	$35,484	42,679	$11,841	$15,501	$17,701
Per Share Data:								
Net income	$.72	$.86	$1.01	$1.26	$1.33	$.42	$.54	$.54
Average number of shares outstanding	29,940	29,638	28,778	28,158	32,158	27,884	28,712	32,712

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(1) The pro forma financial data for the indicated periods assume (i) the acquisition of the First Hospital Properties, and reflect the acquisitions of Aiken, Manatee and Northwest Texas Health; (ii) the dispositions of Westlake Medical Center, Dallas Family Hospital and Universal Medical Center; and (iii) the issuance of the shares of Class B Common Stock offered by the Company hereby and the application of the net proceeds thereof (assuming a public offering price of $24.375 per share) to repay debt incurred to fund the acquisitions of Northwest Texas Health and the First Hospital Properties as described under "Use of Proceeds." Pro forma Statement of Income Data and Per Share Data were prepared as if the acquisitions and related transactions occurred on the first day of the period presented. Prior to the issuance of the Shares offered hereby and the application of the net proceeds from this Offering to repay debt incurred to fund the 1996 acquisitions, pro forma earnings per share for the year ended December 31, 1995 and the quarter ended March 31, 1996 were $1.38 and $.59, respectively. See "Pro Forma Financial Information."

SUMMARY BALANCE SHEET DATA

	(UNAUDITED) AT MARCH 31,	
	1996	1996 PRO FORMA(1)
	(DOLLARS IN THOUSANDS)	
Working capital	$ 16,125	$ 36,543
Total assets	767,942	951,028
Long-term borrowings	230,401	306,646
Total debt	237,381	313,626
Total stockholders' equity	315,826	408,646

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(1) The pro forma balance sheet data for the indicated date assume (i) the acquisition of the First Hospital Properties, and reflects the acquisition of Northwest Texas Health; and (ii) the application of the net proceeds received by the Company from this Offering (assuming a public offering price of $24.375 per share) to repay debt incurred to fund the acquisitions of Northwest Texas Health and the First Hospital Properties. Pro forma balance sheet data were prepared as if the acquisitions and related transactions

occurred as of the balance sheet date. See "Pro Forma Financial Information."

SELECTED OPERATING DATA

The following table shows the bed utilization and occupancy rates for the hospitals operated by the Company as of March 31, 1996, for the periods indicated. Accordingly, the information is presented on a basis different from that used in preparing the historical financial information included herein and included or incorporated by reference in this Prospectus.

	YEARS ENDED DECEMBER 31,					(UNAUDITED) THREE MONTHS ENDED MARCH 31,		
	1992	1993	1994	1995	1995 PRO FORMA(1)	1995	1996	1996 PRO FORMA(1)
Average Licensed Beds								
Acute Care Hospitals............	2,645	2,730	2,788	2,808	3,168	2,789	2,797	3,154
Behavioral Health Centers.......	1,206	1,216	1,227	1,265	1,631	1,265	1,267	1,633
Hospital Admissions								
Acute Care Hospitals............	83,826	87,174	92,911	100,004	113,476	25,704	27,551	30,887
Behavioral Health Centers.......	13,505	15,560	16,804	17,888	24,848	4,197	4,298	6,019
Average Length of Patient Stay (Days)								
Acute Care Hospitals............	5.8	5.6	5.3	5.1	5.2	5.2	5.1	5.1
Behavioral Health Centers.......	15.7	13.0	11.6	11.2	12.3	12.0	12.1	13.1
Patient Days(2)								
Acute Care Hospitals............	485,015	486,291	496,462	511,487	585,328	134,470	140,088	158,726
Behavioral Health Centers.......	211,390	202,047	195,004	200,857	304,800	50,553	52,083	78,659

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(1) The year ended December 31, 1995 (Pro forma) and the three months ended March 31, 1996 (Pro forma) assumes that the acquisitions of Northwest Texas Health and the First Hospital Facilities occurred on the first day of the period presented.

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

RISK FACTORS

This Prospectus contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below, as well as those discussed elsewhere in the Prospectus.

CONCENTRATION OF EARNINGS

McAllen Medical Center contributed 20% and 21% of the Company's net revenues and 36% and 35% of the Company's earnings before interest, income taxes, depreciation, amortization, lease and rental expense and non-recurring transactions ("EBITDAR"), for the two years ended December 31, 1995 and 1994, respectively, excluding the effect of the special Medicaid reimbursements received at two of the Company's Texas acute care hospitals of $12.6 million and $12.7 million for the years ended December 31, 1995 and 1994, respectively (the "Indigent Care Reimbursements"). On a pro forma basis, assuming that the acquisitions of Northwest Texas Health (acquired in May 1996), the First Hospital Facilities (acquisition pending), Aiken (acquired in July 1995) and Manatee (acquired in August 1995), and the dispositions of Dallas Family Hospital, Westlake Medical Center (both disposed of in July 1995) and Universal Medical Center (disposed of in October 1995) occurred on January 1, 1995 (the "Adjustments"), and excluding the Indigent Care Reimbursements, McAllen Medical Center would have contributed 15% of the Company's net revenues for the year ended December 31, 1995 and 30% of the Company's EBITDAR for such period.

Valley Hospital Medical Center ("Valley Hospital") contributed 18% and 19% of the Company's net revenues and 30% and 35% of the Company's EBITDAR, for the years ended December 31, 1995 and 1994, excluding the Indigent Care Reimbursements. On a pro forma basis, taking into account the Adjustments and excluding the Indigent Care Reimbursements, Valley Hospital would have contributed 14% of the Company's net revenues for the year ended December 31, 1995 and 24% of the Company's EBITDAR for such period.

Assuming the Adjustments and excluding the Indigent Care Reimbursements, Manatee would have contributed 11% of the Company's net revenues for the year ended December 31, 1995 and 12% of the Company's EBITDAR for such period.

Any adverse change in the condition or in the results of operations of these hospitals could have a material adverse effect on the Company.

COMPETITION

The healthcare industry has been characterized in recent years by increased competition for patients and staff physicians, excess capacity at general hospitals, a shift from inpatient to outpatient settings, a decrease in patients' average length of stay and increased consolidation. The principal factors contributing to these trends are advances in medical technology, cost-containment efforts by managed care payors, employers and traditional health insurers, changes in regulations and reimbursement policies, increases in the number and type of competing healthcare providers and changes in physician practice patterns. 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. The Company's future success will depend, in part, on the ability of the Company's hospitals to continue to attract and maintain staff physicians and to organize and structure integrated healthcare delivery systems with other healthcare providers and physician practice groups. There can be no assurance that the Company's hospitals will continue to be able, on terms favorable to the Company, to attract physicians to their staffs, or to organize and structure integrated healthcare delivery systems, for which other healthcare companies with greater financial resources or a wider range of services may be competing.

LIMITS ON REIMBURSEMENT

The Company derives a substantial portion of its net revenues from third-party payors, including the Medicare and Medicaid programs. Changes in government reimbursement programs have resulted in limitations on the growth rates of the reimbursement programs and, in some cases, in reduced levels of reimbursement for healthcare services, and additional changes are anticipated. Such changes are likely to result in further limitations on reimbursement levels. In addition, private payors, including managed care payors, increasingly are demanding discounted fee structures or the assumption by healthcare providers of all or a portion of the financial risk through prepaid capitation arrangements. Inpatient utilization, average lengths of stay and occupancy rates continue to be negatively affected by payor-required pre-admission authorization and utilization review and by payor pressure to maximize outpatient and alternative healthcare delivery services for less acutely ill patients. In addition, efforts to impose reduced allowances, greater discounts and more stringent cost controls by government and other payors are expected to continue. The Company is unable to predict the effect that these changes will have on its operations. Furthermore, limits on the scope of services reimbursed or on reimbursement rates and fees could have a material adverse effect on the financial results of the Company's operations. See "--Health Reform Legislation" and "Business--Sources of Revenue."

HEALTH REFORM LEGISLATION

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 insurance 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 apply for a waiver from current Medicaid regulations to allow it 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 law. Upon meeting certain conditions, and serving a disproportionately high share of Texas' low income patients, McAllen Medical Center, Edinburg Hospital and Northwest Texas Health received an aggregate of $25.8 million under the Texas Medical Assistance Program for the year ended December 31, 1995. The Texas Medical Assistance Program instituted lower reimbursement rates commencing September 1, 1995, and such Program is scheduled to terminate in August 1996. The Company cannot predict whether this Program will continue beyond the scheduled termination date.

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.

CONTROL BY PRINCIPAL STOCKHOLDER

Alan B. Miller, the Company's Chairman of the Board, President and Chief Executive Officer, controls approximately 88% and, upon consummation of this Offering, will control approximately 84% of the general voting power of UHS, including shares of Class A Common Stock and Class C Common Stock owned by two directors of the Company which Mr. Miller, pursuant to the Stockholders' Agreement among Mr. Miller and such directors, has the right to vote under certain circumstances. Mr. Miller also controls an aggregate of 99% of Class A Common Stock and 99% of Class C Common Stock and upon consummation of the Offering will control 99% of Class A Common Stock and 99% of Class C Common Stock. As such, Mr. Miller can elect 80% of the Board of Directors of UHS and accomplish a merger, sale, transfer of assets or other significant transaction without the approval of UHS' other stockholders.

USE OF PROCEEDS

The net proceeds to the Company from the sale of Shares being offered by it in this Offering, after deducting underwriting discounts and the estimated expenses of this Offering, are estimated to be $92.8 million, assuming a public offering price of $24.375 per share ($108.2 million if the Underwriter's over-allotment option is exercised in full). Such proceeds will be used by the Company for the repayment of borrowings under the Company's revolving credit facility, which totaled approximately $169 million as of May 30, 1996, which were incurred to fund the purchases of Northwest Texas Health and the advance to the seller of the First Hospital Properties. Borrowings under the Company's revolving credit facility bear interest at either (i) the prime rate or the sum of the certificate of deposit rate and between 0.625% to 1.125%; or (ii) in the case of Eurodollar loans, the sum of the Eurodollar rate and between 0.500% to 1.000%. The revolving credit facility matures in March 2000. After application of the proceeds from this Offering, $148.8 million will be available to the Company under the revolving credit facility. The Company expects to borrow under the revolving credit facility as needed in connection with acquisitions, although the Company has no understandings or agreements with respect to any such acquisitions, and other corporate purposes. Morgan Guaranty Trust Company of New York, an affiliate of J.P. Morgan Securities Inc., is the lead lender under the Company's revolving credit facility. Approximately 18% of the net proceeds of this Offering will be used to repay Morgan Guaranty Trust Company of New York. See "Underwriting."

CAPITALIZATION

The following table sets forth the capitalization of the Company at March 31, 1996, and such capitalization, as adjusted to give effect to the acquisitions of Northwest Texas Health and the First Hospital Properties, the sale of the Shares offered hereby (assuming a public offering price of $24.375 per share) and the application of the net proceeds therefrom as described in "Use of Proceeds."

	MARCH 31, 1996	
	ACTUAL	AS ADJUSTED
	(IN THOUSANDS)	
Long-Term Debt, net of current portion:		
Notes payable (including obligations under capitalized leases of $12,903 at March 31, 1996) with varying maturities through 2001......	$ 18,575	$ 18,575
Mortgages payable, with varying maturities through 2000................	2,069	2,069
Revolving credit and demand notes.....................................	14,575	90,820
Commercial paper..	50,000	50,000
Revenue bonds: with varying maturities through 2015..............................	18,200	18,200
8 3/4% Senior Notes due 2005, net of unamortized discount of $1,038....	133,962	133,962
Total Long-Term Debt...	237,381	313,626
Less: Amounts due within one year.............................	6,980	6,980
	$230,401	$306,646
Common Stockholders' Equity:		
Class A Common Stock, voting, $.01 par value; authorized 12,000,000 shares; issued and outstanding 2,181,054 shares at March 31, 1996; 1,867,572 shares issued and oustanding, as adjusted..................	22	19
Class B Common Stock, limited voting, $.01 par value; authorized 50,000,000 shares; issued and outstanding 25,480,886 shares at March 31, 1996; 29,825,716 shares issued and outstanding, as adjusted......	255	298
Class C Common Stock, voting, $.01 par value; authorized 1,200,000 shares; issued and outstanding 219,244 shares at March 31, 1996; 187,896 shares issued and outstanding, as adjusted..................	2	2
Class D Common Stock, limited voting, $.01 par value; authorized 5,000,000 shares; issued and outstanding 40,632 shares at March 31, 1996; 40,632 shares issued and oustanding, as adjusted...............	0	0
Capital in excess of par value, net of deferred compensation of $516 at March 31, 1996..	92,366	185,146
Retained earnings...	223,181	223,181
Total Stockholders' Equity	315,826	408,646
Total Capitalization	$553,207	$722,272

PRO FORMA FINANCIAL INFORMATION

The Company has entered into an agreement to purchase (i) substantially all of the assets and operations of four behavioral health centers located in Pennsylvania; (ii) management contracts for seven other behavioral health centers; and (iii) 33 acres of land adjacent to the Company's Wellington Regional Medical Center, for $36.5 million and up to an additional $5 million which is contingent upon the future operating performance of the acquired assets. In May 1996, the Company advanced $36.5 million to the seller pursuant to a term note, which is secured by the stock of the subsidiaries to be acquired by the Company. The term note matures upon the earlier of the granting of regulatory approval and the closing of the purchase transaction, or October 31, 1996. Also in connection with this transaction, the Company entered into a $7 million loan agreement which is secured by the stock of the subsidiaries to be acquired by the Company. The $7 million note, the term of which may be extended upon closing of the above mentioned purchase transaction, is scheduled to mature upon the earlier of the granting of regulatory approval and the closing of the purchase transaction described above, or October 31, 1996. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

In May 1996, the Company acquired substantially all of the assets and operations of Northwest Texas Healthcare Systems, a 360-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 amounts 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 commencing April 1, 1996 and ending March 31, 2003. In addition, under 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.

In August 1995, the Company acquired substantially all of the assets of Manatee Memorial Hospital, a 512-bed acute care hospital located in Bradenton, Florida for $139 million in cash and assumption of net liabilities of approximately $4 million. The assets acquired include the real and personal property, working capital and intangible assets.

In July, 1995, the Company acquired the operations and fixed assets of Aiken Regional Medical Centers, including Aiken Regional Medical Center, The Carolina Cancer Center and the Aurora Pavilion from a subsidiary of Columbia/HCA Healthcare Corporation ("Columbia"). The acquired assets included the real property and moveable equipment together with intangible assets and certain working capital accounts, excluding accounts receivable.

In exchange for Aiken, the Company transferred to Columbia the assets and operations of Westlake Medical Center and Dallas Family Hospital and approximately $44 million in cash. In connection with the Aiken transaction, the Company acquired the property of Westlake Medical Center which it leased from Universal Health Realty Income Trust ("UHT"), in exchange for other property consisting of additional real estate assets owned by the Company but related to three acute care facilities owned by UHT and operated by the Company, which were transferred to and leased back from UHT. These additional real estate assets represent major additions and expansions made to the facilities since the purchase of the properties from the Company in 1986. The Westlake property was then transferred to Columbia. In addition to the Westlake property, the real and personal property of Dallas Family Hospital, and certain working capital accounts of both facilities, excluding accounts receivable, were acquired by Columbia.

In October 1995, the Company sold the real and personal property and substantially all of the operating assets of Universal Medical Center, a 202-bed acute care hospital, located in Plantation, Florida for approximately $19.5 million in cash.

All of the acquisitions have been accounted for as purchases by the Company and the operating results of the entities have been included in the Company's historical operating results from their respective dates of acquisition.

The Pro Forma Condensed Consolidated Statements of Income were prepared as if the above transactions and the Offering occurred as of January 1, 1995. The Pro Forma Condensed Consolidated Balance Sheet was prepared as if the above transactions occurred on March 31, 1996. These pro forma financial statements should be read in connection with the historical financial statements and notes thereto included elsewhere or incorporated by reference in this Prospectus.

The pro forma financial information is unaudited and is not necessarily indicative of the consolidated results which actually would have occurred if the transactions and the Offering had been consummated at the beginning of the periods presented, nor does it purport to present the future financial position and results of operations for future periods.

UNIVERSAL HEALTH SERVICES, INC.
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
MARCH 31, 1996
(UNAUDITED)
(IN THOUSANDS)

	THE COMPANY HISTORICAL	1996 ACQUISITIONS NORTHWEST TEXAS HEALTH (A)	1996 ACQUISITIONS FIRST HOSPITAL PROPERTIES (B)	OTHER PRO FORMA ADJUSTMENTS	THE COMPANY PRO FORMA
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 762	$ (125,565)	$(43,500)	$ 169,065(C)	$ 762
Accounts receivable, net	116,400	16,764	7,099	--	140,263
Other current assets	23,892	9,816	760	--	34,468
Deferred income taxes	15,304	--	--	--	15,304
TOTAL CURRENT ASSETS	156,358	(98,985)	(35,641)	169,065	190,797
Property and equipment, net	411,215	85,785	32,000	--	529,000
Other Assets:					
Excess of cost over fair value of net tangible assets acquired	134,421	22,362	1,500	--	158,283
Deferred income taxes	18,717	--	--	--	18,717
Deferred charges and other	47,231	--	7,000	--	54,231
TOTAL ASSETS	$ 767,942	$ 9,162	$ 4,859	$ 169,065	$951,028
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Current maturities of debt	$ 6,980	$ --	$--	$ --	$ 6,980
Accounts payable and accrued expenses	126,871	9,162	4,859	--	140,892
Federal and state taxes	6,382	--	--	--	6,382
TOTAL CURRENT LIABILITIES	140,233	9,162	4,859	--	154,254
Other non-current liabilities	81,482	--	--	--	81,482
Long-term debt, net of current maturities	230,401	--	--	76,245(D)	306,646
Common stockholders' equity	315,826	--	--	92,820(E)	408,646
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 767,942	$ 9,162	$ 4,859	$ 169,065	$951,028

The accompanying notes and management's assumptions are an integral part of this statement.

UNIVERSAL HEALTH SERVICES, INC.
PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 1995
(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	THE COMPANY HISTORICAL	1995 ACQUISITIONS AND DIVESTITURES (F)	1996 ACQUISITIONS NORTHWEST TEXAS HEALTH (G)	1996 ACQUISITIONS FIRST HOSPITAL PROPERTIES (H)	OTHER PRO FORMA ADJUSTMENTS	THE COMPANY PRO FORMA
Net Revenues	$ 931,126	$ 75,311	$ 148,804	$ 44,993	$ --	$1,200,234
Operating charges:						
Operating expenses	361,049	31,884	66,837	12,979	--	472,749
Salaries and wages	329,939	17,560	50,890	20,747	--	419,136
Provision for doubtful accounts	76,905	6,497	11,712	1,707	--	96,821
Depreciation and amortization	51,371	6,595	7,789	2,132	--	67,887
Lease and rental expense	36,068	151	605	205	--	37,029
Interest expense, net	11,195	8,904	--	--	4,514(J)	24,613
Non-recurring charges	11,610	2,590	--	--	--	14,200
Total expenses	878,137	74,181	137,833	37,770	4,514	1,132,435
Income before income taxes	52,989	1,130	10,971	7,223	(4,514)	67,799
Provision for income taxes	17,505	822	--	1,574	5,219(K)	25,120
Net income	$ 35,484	$ 308	$ 10,971	$ 5,649	$ (9,733)	$ 42,679
Earnings per common and common equivalent share	$ 1.26					$ 1.33
Weighted average number of common shares and equivalents	28,158,000					32,158,000

Prior to the issuance of the Shares offered hereby and the application of the net proceeds from this Offering to repay debt incurred to fund the 1996 acquisitions, pro forma earnings per share for the year ended December 31, 1995 were $1.38.

The accompanying notes and management's assumptions are an integral part of this statement.

UNIVERSAL HEALTH SERVICES, INC.
PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE QUARTER ENDED MARCH 31, 1996
(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

		1996 ACQUISITIONS			
	THE COMPANY HISTORICAL	NORTHWEST TEXAS HEALTH (G)	FIRST HOSPITAL PROPERTIES (H)	OTHER PRO FORMA ADJUSTMENTS	THE COMPANY PRO FORMA
Net Revenues	$271,616	$36,369	$ 12,215	$--	$320,200
Operating charges:					
Operating expenses	102,335	17,120	3,605	(245)(I)	122,815
Salaries and wages	94,500	12,346	5,353	--	112,199
Provision for doubtful accounts	21,767	2,726	367	--	24,860
Depreciation and amortization	14,783	1,947	533	--	17,263
Lease and rental expense	9,405	188	73	--	9,666
Interest expense, net	4,648	--	--	1,007(J)	5,655
Total expenses	247,438	34,327	9,931	762	292,458
Income before income taxes	24,178	2,042	2,284	(762)	27,742
Provision for income taxes	8,677	--	542	822(K)	10,041
Net income	$ 15,501	$ 2,042	$ 1,742	$(1,584)	$ 17,701
Earnings per common and common equivalent share	$0.54				$0.54
Weighted average number of common shares and equivalents	28,712,000				32,712,000

Prior to the issuance of the Shares offered hereby and the application of the net proceeds from this Offering to repay debt incurred to fund the 1996 acquisitions, pro forma earnings per share for the quarter ended March 31, 1996 were $.59.

The accompanying notes and management's assumptions are an integral part of this statement.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
NOTES TO MANAGEMENT'S ASSUMPTIONS TO UNAUDITED
PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(A) NORTHWEST TEXAS HEALTH ACQUISITION:

	NORTHWEST TEXAS HEALTH HISTORICAL(1)	PRO FORMA ADJUSTMENTS: ASSETS AND LIABILITIES NOT ACQUIRED(2)	PRO FORMA ADJUSTMENTS: ALLOCATION OF PURCHASE PRICE(3)(4)	NORTHWEST TEXAS HEALTH ACQUISITION
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 33,200	$(33,200)	$ (125,565)	$ (125,565)
Accounts receivable, net	16,764	--	--	16,764
Other current assets	46,518	(36,702)	--	9,816
TOTAL CURRENT ASSETS	96,482	(69,902)	(125,565)	(98,985)
Property and equipment, net	65,176	--	20,609	85,785
Other Assets:				
Excess of cost over fair value of net tangible assets acquired	--	--	22,362	22,362
Deferred charges and other	4,132	(4,132)	--	--
TOTAL ASSETS	$165,790	$(74,034)	$ (82,594)	$ 9,162
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Current maturities of debt	$ 1,375	$ (1,375)	$ --	$ --
Accounts payable and accrued expenses	14,954	(5,792)	--	9,162
TOTAL CURRENT LIABILITIES	16,329	(7,167)	--	9,162
Other non-current liabilities	592	(592)	--	--
Long-term debt, net of current maturities	6,205	(6,205)	--	--
Common stockholders' equity	142,664	(60,070)	(82,594)	--
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$165,790	$(74,034)	$ (82,594)	$ 9,162

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(1) To reflect the historical cost basis of the assets and liabilities of the Northwest Texas Healthcare System.

(2) To eliminate assets and liabilities not being acquired or assumed.

(3) To allocate purchase price based on fair value of assets acquired, and liabilities assumed.

(4) The allocation of the purchase price excludes contingent consideration.

(B) FIRST HOSPITAL PROPERTIES ACQUISITION:

		PRO FORMA ADJUSTMENTS		
	FIRST HOSPITAL PROPERTIES HISTORICAL(1)	ASSETS AND LIABILITIES NOT ACQUIRED(2)	ALLOCATION OF PURCHASE PRICE(3)(4)	FIRST HOSPITAL PROPERTIES ACQUISITION
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 522	$ (522)	$ (43,500)	$ (43,500)
Accounts receivable, net	10,435	(3,336)	--	7,099
Other current assets	8,245	(7,485)	--	760
TOTAL CURRENT ASSETS	19,202	(11,343)	(43,500)	(35,641)
Property and equipment, net	20,234	--	11,766	32,000
Other Assets:				
Excess of cost over fair value of net tangible assets acquired	--	--	1,500	1,500
Deferred charges and other	9,933	(9,933)	7,000	7,000
TOTAL ASSETS	$49,369	$ (21,276)	$ (23,234)	$ 4,859
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Current maturities of debt	$ 2,486	$ (2,486)	$ --	$ --
Accounts payable and accrued expenses	7,636	(2,777)	--	4,859
TOTAL CURRENT LIABILITIES	10,122	(5,263)	--	4,859
Other non-current liabilities				
Long-term debt, net of current maturities	15,434	(15,434)	--	--
Common stockholders' equity	23,813	(579)	(23,234)	--
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$49,369	$ (21,276)	$ (23,234)	$ 4,859

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(1) To reflect the historical cost basis of the assets and liabilities of the First Hospital Properties.

(2) To eliminate assets and liabilities not being acquired or assumed.

(3) To allocate purchase price based on fair value of assets acquired, and liabilities assumed.

(4) The allocation of the purchase price excludes contingent consideration.

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(C) To record the cash proceeds from the issuance of common stock and borrowings $169,065

(D) To record the net borrowings necessary to finance the 1996 transactions 76,245

(E) To record the issuance of 4,000,000 shares at $24.375, net of offering costs 92,820

(F) To reflect the historical revenues and expenses of the hospitals acquired and divested as part of the Manatee, Aiken and Universal Medical Center transactions. The revenues and expenses of Manatee, Aiken, Westlake, Dallas Family and Universal Medical Center reflected in the table below are for the period from January 1, 1995 through the respective dates of acquisition or divestiture.

		THE AIKEN TRANSACTION					
	MANATEE	AIKEN	WESTLAKE	DALLAS FAMILY	UNIVERSAL MEDICAL CENTER	PRO FORMA ADJUSTMENTS	1995 TRANSACTIONS, NET
Net Revenues	$86,133	$44,233	$(16,032)	$(10,523)	$ (23,665)	$(4,835)(1)	$75,311
Operating charges:							
Operating expenses	35,469	20,247	(7,965)	(4,691)	(11,843)	667(2)	31,884
Salaries and wages	26,368	12,474	(7,061)	(4,354)	(9,867)	--	17,560
Provision for doubtful accounts	5,945	5,638	(1,775)	(2,228)	(1,083)	--	6,497
Depreciation and amortization	3,980	1,907	(1,295)	(884)	(1,375)	4,262(3)	6,595
Lease and rental expense	1,174	576	(1,813)	(562)	(417)	1,193(4)	151
Interest expense, net	7,334	92	--	--	--	1,478(5)	8,904
Non-recurring charges	--	--	--	--	5,251	(2,661)(6)	2,590
Management fees	2,446	1,299	--	--	--	(3,745)(7)	--
Total expenses	82,716	42,233	(19,909)	(12,719)	(19,334)	1,194	74,181
Income (loss) before income taxes	3,417	2,000	3,877	2,196	(4,331)	(6,029)	1,130
Provision (benefit) for income taxes	--	822	--	--	--	--	822
Net income (loss)	$ 3,417	$ 1,178	$ 3,877	$ 2,196	$ (4,331)	$(6,029)	$ 308

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		YEAR ENDED DECEMBER 31, 1995
(1)	Adjustments to Net Revenues--	
	. To eliminate nonoperating income at Manatee	($3,335)
	. To eliminate management fees charged by UHS to Manatee	(1,500)
	Total adjustments to Net Revenues	(4,835)
(2)	To adjust operating expenses at Manatee for state and local taxes and other operating expenses	667
(3)	Adjustments to Depreciation and amortization--	
	. To eliminate historical depreciation expense at Manatee and Aiken	(5,887)
	. To record historical depreciation and amortization expense based on average depreciable lives of 20 years for buildings and improvements, 5 years for equipment and 15 years for the amortization of goodwill at Manatee and Aiken	10,574
	. To adjust historical depreciation expense on the real property transferred to UHT as part of the Aiken transaction	(425)
	Total adjustments to Depreciation and amortization	4,262
(4)	To record lease and rental expense relating to the assets transferred from UHS to UHT	1,193
(5)	Adjustment to interest expense, net--	
	. To eliminate historical interest expense at Manatee and Aiken	(7,426)
	. To record interest savings on UMC proceeds	(1,100)
	. To record interest on borrowings to finance the purchase transactions using borrowings generated from the Company's $135 million Senior Notes, commercial paper and revolving credit facilities	10,004
	Total adjustments to Interest expense, net	1,478

(6)	To eliminate the loss on the Aiken transaction recorded in 1995.........	(2,661)
(7)	To eliminate management fees paid to affiliates.........................	(3,745)

(G) NORTHWEST TEXAS HEALTH ACQUISITION

YEAR ENDED DECEMBER 31, 1995

	NORTHWEST TEXAS HEALTH HISTORICAL	PRO FORMA ADJUSTMENTS	NORTHWEST TEXAS HEALTH PRO FORMA
Net Revenues	$ 152,717	$ (3,913)(1)	$148,804
Operating charges:			
Operating expenses	62,487	4,350(2)	66,837
Salaries and wages	50,890	--	50,890
Provision for doubtful accounts	11,712	--	11,712
Depreciation and amortization	8,724	(935)(3)	7,789
Lease and rental expense	605	--	605
Interest expense, net	636	(636)(4)	--
Total expenses	135,054	2,779	137,833
Income before income taxes	17,663	(6,692)	10,971
Provision for income taxes	--	--	--
Net income	$ 17,663	$ (6,692)	$ 10,971

THREE MONTHS ENDED MARCH 31, 1996

	NORTHWEST TEXAS HEALTH HISTORICAL	PRO FORMA ADJUSTMENTS(5)	NORTHWEST TEXAS HEALTH PRO FORMA
Net Revenues	$ 37,519	$ (1,150)(1)	$ 36,369
Operating charges:			
Operating expenses	16,419	701(2)	17,120
Salaries and wages	12,346	--	12,346
Provision for doubtful accounts	2,726	--	2,726
Depreciation and amortization	2,091	(144)(3)	1,947
Lease and rental expense	188	--	188
Interest expense, net	112	(112)(4)	--
Total expenses	33,882	445	34,327
Income before income taxes	3,637	(1,595)	2,042
Provision for income taxes	--	--	--
Net income	$ 3,637	$ (1,595)	$ 2,042

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	YEAR ENDED DECEMBER 31, 1995	THREE MONTHS ENDED MARCH 31, 1996
(1) Adjustments to Net Revenues--		
. To eliminate nonoperating income of net assets not acquired	$(3,689)	$ (1,066)
. To eliminate ad valorem tax revenue at Northwest Texas Health	(8,224)	(2,084)
. To record indigent care receipts at Northwest Texas Health	8,000	2,000
Total adjustments to Net Revenues	(3,913)	(1,150)
(2) To increase operating expenses at Northwest Texas Health for state and local taxes and other operating expenses, net of assumed contractual cost savings of $1 million annually	4,350	701

(3) Adjustments to Depreciation and amortization expense--		
. To eliminate historical depreciation expense at Northwest Texas Health............................	$(8,724)	$ (2,091)

		YEAR ENDED DECEMBER 31, 1995	THREE MONTHS ENDED MARCH 31, 1996
	. To record historical depreciation and amortization expense based on average depreciable lives of 25 years for buildings and improvements, 7 years for equipment and 15 years for the amortization of goodwill at Northwest Texas Health	7,789	1,947
	Total adjustments to Depreciation and amortization	(935)	(144)
(4)	To eliminate historical interest expense	(636)	(112)
(5)	The allocation of the purchase price excludes contingent consideration.		

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(H) FIRST HOSPITAL PROPERTIES ACQUISITION

YEAR ENDED DECEMBER 31, 1995

	FIRST HOSPITAL PROPERTIES HISTORICAL	PRO FORMA ADJUSTMENTS	FIRST HOSPITAL PROPERTIES PRO FORMA
Net Revenues	$44,993	$--	$44,993
Operating charges:			
Operating expenses	12,729	250(1)	12,979
Salaries and wages	20,747	--	20,747
Provision for doubtful accounts	1,707	--	1,707
Depreciation and amortization	1,830	302(2)	2,132
Lease and rental expense	205	--	205
Interest expense, net	1,883	(1,883)(3)	--
Management fees	2,752	(2,752)(4)	--
Total expenses	41,853	(4,083)	37,770
Income before income taxes	3,140	4,083	7,223
Provision for income taxes	1,574	--	1,574
Net income	$ 1,566	$ 4,083	$ 5,649

THREE MONTHS ENDED MARCH 31, 1996

	FIRST HOSPITAL PROPERTIES HISTORICAL	PRO FORMA ADJUSTMENTS	FIRST HOSPITAL PROPERTIES PRO FORMA
Net Revenues	$12,215	$--	$12,215
Operating charges:			
Operating expenses	3,542	63(1)	3,605
Salaries and wages	5,353	--	5,353
Provision for doubtful accounts	367	--	367
Depreciation and amortization	451	82(2)	533
Lease and rental expense	73	--	73
Interest expense, net	449	(449)(3)	--
Management fees	562	(562)(4)	--
Total expenses	10,797	(866)	9.931
Income before income taxes	1,418	866	2,284
Provision for income taxes	542	--	542
Net income (loss)	$ 876	$ 866	$ 1,742

		YEAR ENDED DECEMBER 31, 1995	THREE MONTHS ENDED MARCH 31, 1996
(1)	To adjust operating expenses at the First Hospital Properties for increases in operating expenses......	$ 250	$ 63
(2)	Adjustments to depreciation and amortization expense--		
	. To eliminate historical depreciation expense at the First Hospital Properties...........................	(1,830)	(451)
	. To record historical depreciation and amortization expense based on average depreciable lives of 25 years for buildings and improvements, 7 years for equipment and 15 years for the amortization of goodwill at the First Hospital Properties.........	2,132	533
	Total adjustments to Depreciation and amortization.....................................	302	82
(3)	To eliminate historical interest expense...........	(1,883)	(449)
(4)	To eliminate management fees paid to an affiliate of the First Hospital Properties......................	(2,752)	(562)
(5)	The allocation of the purchase price excludes contingent consideration.		

(I)	To eliminate acquisition costs incurred by UHS related to Northwest Texas Health and the First Hospital Properties..............................	--	(245)
(J)	Adjustments to interest expense, net--		
	. To record interest on borrowings to finance the purchase transactions using borrowings under the Company's revolving credit facility at an average rate of 6.77% and 6.13%, respectively............	5,162	1,169
	. To record interest income on the $7,000,000 loan to First Hospital................................	(648)	(162)
	Total adjustments to interest expense, net..........	4,514	1,007
(K)	To adjust income tax expense for the effect of all pro forma adjustments............................	5,219	822

SELECTED FINANCIAL DATA

The selected consolidated financial data presented below for, and as of the end of, each of the five years in the period ended December 31, 1995, have been derived from the consolidated financial statements of the Company, which have been audited by Arthur Andersen LLP. The selected consolidated financial data presented below for, and as of the end of the three-month periods ended March 31, 1995 and 1996 are unaudited and have been prepared on the same basis as the audited consolidated financial statements of the Company and include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the information set forth therein. This data should be read in conjunction with the consolidated financial statements, related notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial information included elsewhere or incorporated by reference in this Prospectus.

	YEARS ENDED DECEMBER 31,					(UNAUDITED) THREE MONTHS ENDED MARCH 31,	
	1991	1992	1993	1994	1995	1995	1996
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)						
Statement of Operations:							
Net revenues	$ 691,619	$ 731,227	$ 761,544	$ 782,199	$ 931,126	$ 220,715	$ 271,616
Costs and expenses:							
Operating expenses	283,511	285,922	299,645	298,108	361,049	84,469	102,335
Salaries and wages	255,067	265,017	280,041	286,297	329,939	78,021	94,500
Provision for doubtful accounts	44,832	45,008	55,409	58,347	76,905	17,185	21,767
Depreciation and amortization	35,022	49,059	39,599	42,383	51,371	11,310	14,783
Lease and rental expense	34,479	33,854	34,281	34,097	36,068	8,772	9,405
Interest expense, net	8,150	11,414	8,645	6,275	11,195	1,614	4,648
Nonrecurring charges	--	--	8,828	9,763	11,610	--	--
Total operating charges	661,061	690,274	726,448	735,270	878,137	201,371	247,438
Income before income taxes	30,558	40,953	35,096	46,929	52,989	19,344	24,178
Provision for income taxes	10,239	20,933	11,085	18,209	17,505	7,503	8,677
Net income	$ 20,319	$ 20,020	$ 24,011	$ 28,720	$ 35,484	$ 11,841	$ 15,501
Per Share Data:							
Net income	$ .73	$ .72	$ .86	$ 1.01	$ 1.26	$ .42	$ .54
Weighted average number of shares outstanding	29,984	29,940	29,638	28,778	28,158	27,884	28,712
Balance Sheet Data:							
Working capital	$ 14,345	$ 33,716	$ 15,500	$ 14,607	$ 21,905	$ 15,593	$ 16,125
Total assets	500,706	472,427	460,422	521,492	748,051	539,232	767,942
Long-term borrowings	127,235	114,959	75,081	85,125	237,086	75,038	230,401
Total debt	179,872	118,696	79,394	92,361	244,211	82,213	237,381
Total stockholders' equity	184,353	202,903	224,488	260,629	297,700	272,888	315,826

RESULTS OF OPERATIONS
THREE MONTHS OF 1996 COMPARED TO THREE MONTHS OF 1995 (CONSOLIDATED)

Net revenues increased 23% ($51 million) for the three months ended March 31, 1996, over the comparable prior year period due primarily to the acquisitions of a 225-bed acute care facility and a 512-bed acute care facility acquired during the third quarter of 1995, net of revenue effects of three acute care facilities divested during the third and fourth quarters of 1995, and revenue growth at facilities owned during both periods. Net revenues at hospital facilities owned during both periods increased 4% ($8 million) for the three months ended March 31, 1996 over the comparable prior year period, excluding the additional revenues received from the special Medicaid reimbursements received by two of the Company's acute care facilities which participate in the Texas Medical Assistance Program. Upon meeting certain conditions of participation and serving a disproportionately high share of the state's low income patients, these hospitals became eligible and received additional reimbursements totaling $1.8 million during the first quarter of 1996 and $3.8 million during the first quarter of 1995. These programs are scheduled to terminate in August 1996 and the Company cannot predict whether these programs will continue beyond the scheduled termination date.

Excluding the net revenue effects of the special Medicaid reimbursement programs mentioned above, earnings before interest, income taxes, depreciation, amortization and lease and rental expense ("EBITDAR") increased 37% ($14 million) to $51 million for the three months ended March 31, 1996 as compared to $37 million in the comparable prior year period. Overall operating margins, excluding the special Medicaid reimbursements, were 19.0% for the three months ended March 31, 1996 as compared to 17.2% in the comparable prior year period.

ACUTE CARE SERVICES

Net revenues from the Company's acute care hospitals and ambulatory treatment centers accounted for 88% and 86% of the consolidated net revenues for the three month periods ended March 31, 1996 and 1995, respectively. Net revenues at the Company's acute care hospitals owned during both periods increased 6% after excluding the revenues received from the special Medicaid reimbursements described above. Despite the continued shift in the delivery of healthcare services to outpatient care, the Company's acute care hospitals owned during both periods experienced a 6% increase in inpatient admissions and a 4% increase in patient days in 1996 as compared to 1995. 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 accounted for 12% and 14% of the consolidated net revenues for the three month periods ended March 31, 1996 and 1995, respectively. Net revenues at the Company's psychiatric hospitals owned during both periods decreased 6% during the three months ended March 31, 1996 as compared to the comparable prior year period. Although the admissions, patient days and length of stay at these facilities increased approximately 1% during the 1996 quarter as compared to the 1995 quarter, the decrease in net revenues resulted primarily from the fact that residential treatment days, which reimburse the Company at lower rates per day as compared to other behavioral health care services, constituted a greater percentage of patient days than in the prior year period. The Company's behavioral health care facilities have continued to be affected by changes in the delivery of psychiatric 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 31% to $3.5 million for the three months ended March 31, 1996 as compared to the comparable prior year period due primarily to the Company's acquisition of two acute care hospitals in July and August of 1995, partially offset by the effect of three acute care facilities divested in July and October of 1995.

Interest expense increased $3.0 million for the three month period ended March 31, 1996 over the 1995 quarter due primarily to increased borrowings used to finance the purchase of two acute care hospitals during the third quarter of 1995.

The effective tax rate was 36% and 39% for the three month periods ended March 31, 1996 and 1995, respectively. The decrease in the effective rate was due primarily to the financing of employee benefit programs.

GENERAL TRENDS

An increased proportion of the Company's revenue is derived from fixed payment services, including Medicare and Medicaid which accounted for 48% and 43% of the Company's net patient revenues for the three months ended March 31, 1996 and 1995, respectively, excluding the additional revenues from special Medicaid reimbursement 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 formulae for psychiatric hospitals.

In addition, 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 to grow, including HMOs, PPOs and Medicare and Medicaid beneficiaries enrolled in such programs. 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 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. Both the House of Representatives and the Senate are considering legislation providing for substantial Medicare savings over an extended period, including reductions in payments to hospitals, which would limit the rate of growth of the program. The Company cannot predict what new legislation may ultimately be enacted, and if enacted, 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. See "Risk Factors--Health Reform Legislation."

1995 COMPARED TO 1994 AND 1993 (CONSOLIDATED)

Net revenues increased 19% ($149 million) to $931 million in 1995 over 1994 and 3% ($21 million) to $782 million in 1994 as compared to 1993. The increase during 1995 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 ($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). The increase in net revenues in 1994 as compared to 1993 resulted primarily from revenue growth at facilities owned during both years and the acquisition and development of ambulatory treatment centers.

Net revenues at hospital facilities owned during all three periods increased by 7% ($47 million) in 1995 over 1994 and 7% ($42 million) in 1994 over 1993, excluding the additional revenues received by two of the Company's acute care facilities which participate in the Texas Medical Assistance Program. Upon meeting certain conditions of participation and serving a disproportionately high share of the state's low income patients, these two hospitals became eligible and received additional reimbursements totalling $12.6 million in 1995, $12.7 million in 1994 and $13.5 million in 1993. These programs are scheduled to terminate in August 1996 and the Company cannot predict whether these programs will continue beyond the scheduled termination date. The Company acquired a 225-bed acute care hospital in July 1995 and a 512-bed acute care hospital in August 1995 which contributed combined net revenues of $89 million during 1995. The Company divested three acute care hospitals during 1995 and two acute care hospitals during 1993 which contributed combined net revenues of $50 million, $81 million and $115 million during 1995, 1994 and 1993, respectively. Net revenues at the Company's ambulatory treatment centers increased to $23 million in 1995 from $17 million in 1994 and $11 million in 1993.

Excluding the revenue effects of the special Medicaid reimbursement programs, EBITDAR increased to $151 million in 1995 from $127 million in 1994 and $113 million in 1993. The Company's consolidated operating margins were 16.4% in 1995, 16.5% in 1994 and 15.1% in 1993. While operating margins at the Company's acute care and behavioral health services facilities owned during both 1995 and 1994 increased, the Company's consolidated margin was lower in 1995 as compared to 1994 due to losses sustained at the three acute care facilities divested during 1995. The improvement in the Company's consolidated operating margins in 1994 compared to 1993 was due primarily to the divestiture of two low margin acute care facilities in 1993 and lower insurance expense in 1994 as compared to 1993.

ACUTE CARE SERVICES

Net revenues from the Company's acute care hospitals and ambulatory treatment centers accounted for 86%, 85% and 84% of consolidated net revenues in 1995, 1994 and 1993, respectively.

Net revenues at the Company's acute care hospitals owned during each of the last three years increased 9% in 1995 over 1994 and 10% in 1994 over 1993, after excluding the revenues received from the special Medicaid reimbursements described above. Despite the continued shift in the delivery of healthcare services to outpatient care, the Company's acute care hospitals experienced a 9% increase in inpatient admissions and a 5% increase in patient days in 1995 as compared to 1994 due primarily to increased impatient volume at two of the Company's larger facilities. Admissions and patient days at acute care facilities owned during each of the last three years increased 10% and 8%, respectively, in 1994 as compared to 1993 due primarily to additional capacity and expansion of service lines at two of the Company's larger facilities. Outpatient activity at the Company's acute care hospitals continues to increase as gross outpatient revenues at these hospitals increased 17% in 1995 over 1994 and 15% in 1994 over 1993 and comprised 22% of the Company's gross patient revenues in each of the last three years. 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, HMOs, 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 take advantage of the trend toward increased outpatient services, the Company has continued to invest in the acquisition and development of outpatient surgery and radiation therapy centers. As of December 31, 1995, the Company operated or managed twenty-five outpatient treatment centers, including four added during 1995, which have contributed to the increase in the Company's outpatient revenues. The Company expects the growth in outpatient services to continue, although the rate of growth may be moderated in the future.

Excluding the revenues received from the special Medicaid reimbursements described above, operating margins (EBITDAR) at the Company's acute care hospitals owned during all three years were 22.6%, 22.1% and 21.3% in 1995, 1994 and 1993, respectively. The improvement in 1995 over 1994 was primarily the result of increased operating margins at certain of the Company's acute care facilities. The margin improvement in 1994 over 1993 resulted primarily from lower insurance expense. Although the Company's acute care operating margins have increased during the last three years, 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 hospitals accounted for 13%, 14% and 15% of consolidated net revenues in 1995, 1994 and 1993, respectively. Net revenues at the Company's behavioral health hospitals owned during each of the last three years increased 1% in 1995 over 1994 and decreased 7% in 1994 as compared to 1993. The increase in 1995 over 1994 resulted primarily from a 4% increase in admissions and a 2% increase in patient days while the average length of stay decreased 2% to 13.5 days in 1995 from 13.8 days in 1994. During 1994 admissions increased 12% over 1993 while patient days decreased 3% due to a 13% decrease in the average length of stay to 13.8 days in 1994 from 15.8 days in 1993. The reduction in the average length of stay during the last three years is a result of changing practices in the delivery of psychiatric 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 hospitals increased 10% in 1995 over 1994 and 17% in 1994 over 1993 and now comprises 16% of the Company's behavioral health services gross patient revenues as compared to 15% in 1994 and 13% in 1993.

Operating margins (EBITDAR) at the facilities owned during all three years were 19.7% in 1995, 15.8% in 1994 and 21.5% in 1993. The increase in the profit margin in 1995 as compared to 1994 was caused by an increase in admissions, stabilization in length of stay and cost reductions implemented in response to the managed care environment. The decrease in the profit margin in 1994 as compared to 1993 was primarily caused by the decrease in net revenues at certain facilities which declined due to an increase in Medicaid denials, a decrease in days of care delivered and a decline in the net revenue per day.

OTHER OPERATING RESULTS

During 1995, the Company recorded $11.6 million of net nonrecurring charges which consists 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.

As discussed elsewhere, 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 impacted 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.

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 charge during 1995 to write-down 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. The impairment loss primarily related to four facilities in the Company's behavioral health services division and three facilities in its ambulatory treatment center division.

During 1995, the impact of managed care was most dramatically felt at the Company's free standing chemical dependency and residential treatment centers. The Company operates two chemical dependency facilities with combined 1995 net revenues of $8.6 million. Substantially all of the non-Medicare business at these facilities is now managed to a large degree by third-party payors. The increased penetration of managed care into this segment has resulted in a continued shift from inpatient care as the primary treatment model to a detoxification/partial hospitalization program resulting in fewer admissions and patient days. Combined with increasing emphasis by payors on price as the most important variable among providers and the increased competition resulting from acute care providers expanding to offer dual diagnosis and ambulatory detoxification services, the Company has determined that both profit margins and volumes at these facilities have been permanently impaired. In addition, CHAMPUS patients account for a significant portion of the Company's net revenue at its two residential treatment centers which had combined net revenues of $10.9 million in 1995. Changes in CHAMPUS regulations and managed care penetration into this segment of the business have driven down lengths of stay dramatically. At these facilities, whose profitability is largely dependent on very long lengths of stay, the decline in the average length of stay has resulted in a permanent impairment.

Within the Company's ambulatory treatment center division, three centers with combined 1995 net revenues of $3.7 million, are located in highly competitive markets which have become heavily penetrated with managed care. As a result, net revenues per case and case volumes at these centers have decreased 11% and 7%, respectively, in 1995 as compared to 1994 due primarily to increased influence of payors, increased monitoring of outpatient services and willingness of hospitals to compete with ambulatory treatment centers on price. The Company expects these unfavorable trends to continue within these two geographical markets resulting in a permanent impairment.

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 mentioned above; (ii) a $2.8 write-down of the carrying value of a psychiatric hospital 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. Included in the $8.8 million of nonrecurring charges recorded in 1993 is a $4.4 million loss on disposal of two acute care facilities divested during the fourth quarter of 1993 and $4.4 million related to the winding down or disposition of non-strategic businesses.

Depreciation and amortization expense increased $9.0 million in 1995 over 1994 due primarily to the Company's acquisition of two acute care hospitals in July and August of 1995, net of effects of three acute care facilities divested during the year ($5.6 million), a full year of depreciation expense of an acute care hospital acquired in November of 1994 ($1.1 million) and the increased depreciation expense related to capital expenditures and acquisition of outpatient treatment centers ($2.3 million). Depreciation and amortization expense increased $2.8 million in 1994 over 1993 due primarily to $1.9 million of such expenses related to the Company's acquisition of outpatient treatment centers and the increased depreciation expense related to capital expenditures made in the Company's acute care division.

Interest expense increased $4.9 million or 78% during 1995 over 1994 due primarily to borrowings used to finance 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) was financed from operating cash flows and borrowings under the Company's commercial paper and revolving credit facilities. Interest expense decreased $2.4 million or 27% in 1994 as compared to 1993 was due to lower average outstanding borrowings.

The effective tax rate was 33%, 39% and 32% in 1995, 1994 and 1993, respectively. The decrease in effective tax rate in 1995 as compared to 1994 was due to: (i) the deductibility of previously non-deductible goodwill amortization resulting from the sale of three acute care hospitals; and (ii) the financing of employee benefit programs. The increase in the effective tax rate for 1994 as compared to 1993 was due to the 1993 tax provision containing a reduction in the state tax provision.

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 $32.7 million for the three months ended March 31, 1996 and $91.7 million, $60.6 million and $84.6 million for the 1995, 1994 and 1993 fiscal years, respectively. In addition, cash flow from operating activities in the first quarter of 1995 was adversely impacted by an increase in accounts receivable resulting from a temporary decline in cash collections due to information systems conversions at the Company's hospitals. Partially offsetting these changes was a $2.7 million increase in payments made in settlement of self-insurance claims. The net cash provided by operating activities substantially exceeded the scheduled maturities of long-term debt.

During the first three months of 1996, the Company used $25.7 million of its operating cash flow to finance capital expenditures (including $7 million spent on the construction of a new medical complex in Summerlin, Nevada) and $6.8 million to reduce outstanding debt.

Subsequent to the end of the 1996 first quarter, the Company executed a purchase agreement to acquire four behavioral health care hospitals located in Pennsylvania and seven contracts to manage behavioral health programs. This purchase transaction, which is subject to regulatory approval, is expected to be completed in June 1996. The total purchase price for the acquisition of these hospitals and management contracts is $36.5 million in cash for the operations and the property, plant and equipment and up to an additional $5 million which is contingent upon the future operating performance of the acquired assets. In May 1996, the Company advanced $36.5 million to the seller pursuant to a term note, which is secured by the stock of the subsidiaries to be acquired by the Company, which matures upon the earlier of the granting of regulatory approval and the closing of the purchase transaction, or October 31, 1996. Also in connection with this transaction, the Company entered into a $7 million loan agreement which is secured by the stock of the subsidiaries to be acquired by the Company. The $7 million note, the term of which may be extended upon closing of the above mentioned purchase transaction, is scheduled to mature upon the earlier of the granting of regulatory approval and the closing of the purchase transaction described above, or October 31, 1996.

In May 1996, the Company acquired substantially all of the assets and operations of Northwest Texas Health, a 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 amounts 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 commencing April 1, 1996 and ending March 31, 2003. In addition, under 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. Northwest Texas Health consists of a 360 licensed bed full service acute care hospital and free standing behavioral health hospital, two urgent care clinics and other operations. The funds used to finance the above mentioned transactions were borrowed on the Company's revolving credit facility.

The Company expects to finance all capital expenditures and acquisitions with internally generated funds, borrowed funds or the sale of debt or equity securities. As of March 31, 1996, after including the $168.5 million of additional borrowings for the purchase transactions described above, the Company had $42 million of unused borrowing capacity under its commercial paper and revolving credit facilities.

GENERAL

The principal business of the Company is owning and operating acute care hospitals, behavioral health centers, ambulatory surgery centers and radiation oncology centers. Currently, the Company operates or manages 35 hospitals, consisting of 16 acute care hospitals and 19 behavioral health centers, 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 26 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.

INDUSTRY OVERVIEW

Healthcare is one of the largest industries in the United States, representing total expenditures of approximately $938.3 billion, or 13.9% of gross domestic product, in 1994 according to the Federal Healthcare Financing Administration ("HCFA"). Increases in healthcare expenditures, including hospital expenditures, historically have outpaced inflation due to, among other factors, the aging of the population and the increased availability and use of high-technology treatments and tests. According to HCFA, healthcare expenditures increased by approximately 6.1% in 1994 from approximately $884.0 billion in 1993.

In response to escalating healthcare costs, government and private purchasers of healthcare services have undertaken substantial revisions in their payment methodologies and have increased significantly the degree to which they monitor the utilization of services. Additionally, payors increasingly are utilizing HMOs and PPOs as cost-effective alternatives to traditional fee-for-service health insurance plans. Under these systems, hospitals bear the financial risk of providing healthcare services since they receive either a specific, fixed reimbursement for each treatment or specific fixed periodic payments based on the number of members of the HMO or PPO served or eligible for service by that hospital, regardless of the actual costs of providing the care. These payment systems have resulted in increased contractual allowances and discounts to hospitals' standard charges for services and a shift from inpatient to outpatient care.

These changes in payment methodologies have created many changes in the provision of healthcare. A significant shift from inpatient to outpatient care has resulted in significant unused hospital capacity and increases in the utilization of outpatient services and greater outpatient revenues. As a result, in part, of the changes in the industry, there has been significant consolidation in the hospital industry over the past few years. In response to payor trends, integrated healthcare networks have been established to provide a continuum of patient care in a cost-effective framework.

BUSINESS STRATEGY

The Company's strategy to enhance its profitability and to continue to provide high quality, cost-effective healthcare services includes the following key elements:

- establish and maintain market leadership positions in small and medium-sized markets with favorable demographics;

- develop or participate in the leading integrated healthcare delivery system in each of its hospital's markets;

- develop and maintain strong relationships with physicians;

- maintain a low cost structure while providing high quality care; and

- attract managed care contracts.

Establish and Maintain Leadership Positions in Small and Medium-Sized Markets with Favorable Demographics

The Company believes that small and medium-sized markets provide the Company with strong opportunities for profitability since such markets typically are less competitive than major metropolitan markets and have lower cost structures. The Company strives to enhance its leadership position in its existing markets by improving the hospital's physical plant, improving and increasing the services offered by the hospital and making complementary acquisitions or constructing additional facilities. In determining whether to enter new markets, the Company considers, among other factors, the competitive situation and demographic profile.

Examples of the Company's development and expansion of operations in small and medium-sized markets are the Company's recent acquisition and development activities. In Las Vegas, which is located in the fastest growing MSA in the nation, the Company owns the 398-bed Valley Hospital. At Valley Hospital, the Company recently developed an outpatient surgery center, conducted a major renovation of its emergency room and is establishing a neonatal intensive care unit. In addition, to further enhance the Company's leadership in Las Vegas, the Company is developing, with the Howard Hughes Corporation, a medical complex, including a 148-bed acute care hospital, an ambulatory surgery center, a medical office building and a diagnostic center in the community of Summerlin, Nevada, in western Las Vegas. Howard Hughes Corporation has granted to the Company the exclusive right to operate medical facilities in Summerlin.

In McAllen, Texas, to complement the Company's market leading 475-bed McAllen Medical Center, the Company recently acquired Edinburg Hospital, located in Edinburg, north of McAllen. McAllen is in the fourth fastest growing MSA in the nation. The Company is further expanding its presence in the McAllen market by building a new 124-bed acute care hospital in Edinburg and converting the existing property to a nursing and rehabilitation facility.

The Company's recent acquisitions of Aiken and Manatee in 1995 provide the Company with two market leaders in markets with favorable demographics. Aiken, a 225-bed medical complex located in Aiken, South Carolina, is the only hospital located in Aiken County, South Carolina. In addition, to acquire Aiken, the Company exchanged Dallas Family Hospital and Westlake Medical Center, two hospitals which are not leaders in their markets and which the Company was unable to link to their respective market leaders. Manatee, a 512-bed acute care hospital, is one of two hospitals in Manatee County, Florida.

The Company's recent acquisition of Northwest Texas Health also provides the Company with a market leader. Northwest Texas Health is one of two hospitals located in Amarillo, Texas. Amarillo is located 90 miles from the next largest city and has a population of approximately 200,000 people, growing 22% faster than the population of the U.S. as a whole. The Company intends to position Northwest Texas Health as the hub of a health care delivery system. Northwest Texas Health is a full service tertiary health care system with market leading cardiac, obstetrics, pediatrics, trauma, and behavioral health services. In addition to the acute care and behavioral health hospitals, Northwest Texas Health also operates two fully equipped outpatient urgent care clinics and the county's only ambulance and only rescue helicopter services. Northwest Texas Health had been government operated.

The Company expects to improve the operating performance of Northwest Texas Health by adding services, more aggressively marketing existing capabilities, reducing supply expenses, reducing the expense of purchased services, and reducing labor costs.

The majority of the Company's behavioral health centers are either the first or second largest facility in their respective markets, ranked by beds/revenues. In April 1996, the Company entered into an agreement to acquire the First Hospital Properties. This acquisition will augment the Company's presence in Pennsylvania. Each of the First Hospital Facilities is the leading provider of behavioral health services in its market. The combination of the First Hospital Facilities and their related outpatient activities plus the four managed units in Pennsylvania create the largest comprehensive behavioral health network in Pennsylvania. The Company believes its historical success in operating behavioral health facilities, when coupled with the acquired contract management business of the First Hospital Properties, will make it an effective competitor for new contracts to manage behavioral health units of hospitals.

The Company has also established market leadership positions with most of its ambulatory surgery centers and radiation oncology centers. The majority of the Company's surgery centers are the sole free standing providers in their respective markets and all except one of the Company's free standing radiation centers are the sole providers. The Company seeks to acquire ambulatory surgery centers and radiation oncology centers which are the sole free standing providers in a market, since these centers provide a cost-effective alternative to the local hospital.

Develop Integrated Healthcare Delivery Systems

In each of its hospital's markets, the Company has established or is developing an integrated healthcare delivery system to offer a full range of patient care on a cost-effective basis. Through the development of integrated healthcare delivery systems, the Company believes that it will augment revenues and market share by attracting an increasing share of large, sophisticated governmental and private sector managed care contracts. The Company believes that hospitals are the logical hubs for the development of integrated healthcare delivery systems due to their highly developed infrastructure, extensive base of services, sophisticated equipment and skilled personnel. The Company believes that the development of integrated healthcare delivery systems is accomplished by (i) maintaining a single hospital's leadership in its market or (ii) coordinating the services of its hospital with the market leader.

In certain markets where the Company is a market leader, for example Las Vegas, Nevada and McAllen, Texas, the Company has positioned its hospitals as the center of healthcare delivery systems by responding to community needs and developing new services. In Las Vegas, the Company developed an outpatient surgery center, conducted a major renovation of its emergency room and is establishing a neonatal intensive care unit. In the Las Vegas and McAllen markets, the Company has also undertaken development activities. In addition, as a market leader, the Company intends to position Northwest Texas Health as the center of a healthcare delivery system. See "Prospectus Summary--The Company."

To increase the presence of the Company's behavioral health centers in southeastern Massachusetts, the Company recently acquired Fuller Memorial Psychiatric Hospital. Fuller, which is located in close proximity to two of the Company's other behavioral health centers and its 11 day-treatment clinics, will augment the Company's ability to serve additional patients in southeastern Massachusetts.

In markets where the Company is not by itself a market share leader, the Company attempts to link its hospitals with the market leader. The Company has effected such a linkage in New Orleans, where its hospitals are linked with Methodist Hospital and East Jefferson Hospital, both of which are their respective market leaders.

Develop and Maintain Strong Relationships with Physicians

The Company believes that its success will depend in large part on maintaining strong relationships with physicians, and has, therefore, devoted substantial management effort and resources to establish and maintain such relationships and to foster a physician-friendly culture at each of its hospitals. The Company attracts physicians to its hospitals by equipping its hospitals with sophisticated equipment, constructing medical office buildings adjacent to many of its hospitals, providing physicians with a large degree of independence in conducting their hospital practice, supplying a quality nursing and technical staff and sponsoring training programs to educate physicians on advanced medical procedures. These efforts help develop and maintain strong relationships with physicians and better serve the needs of patients. In addition, consistent with the Company's goal of establishing integrated healthcare delivery systems, the Company is expanding its alliances with physicians to create long term hospital/physician linkages. These arrangements will allow physicians to participate in the delivery of healthcare at the network level. For example, in Nevada, the Company has established Universal Health Network, a PPO with approximately 125,000 covered lives.

Maintain a Low Cost Structure While Providing High Quality Care

The Company has taken steps to create a low cost structure, which the Company believes will enable it to continue to compete effectively in each of its current markets. The Company has established standardized management information systems which provide accurate clinical and financial data for use by hospital staff, physicians and corporate management. In addition, the Company closely monitors departmental staffing and has established staffing level targets for each hospital based on the amount and type of services provided. The Company reviews compliance with these staffing targets on a monthly basis. The Company also reviews patient length of stay, service utilization, cash flow, accounts receivable collection, inventory levels and outside purchases. To reduce the cost of supplies, the Company has entered into national purchasing contracts.

While maintaining its commitment to a low cost structure, the Company has developed and implemented a continuous quality improvement program designed to assess all levels of patient care provided in its hospitals. While the basics of the program are mandated by federal, state and Joint Commission on Accreditation of Healthcare Organizations ("JCAHO") regulations and standards, the objective of the program is to meet or exceed the mandates by focusing on hospital systems, patient, physician and employee concerns. The quality improvement program is managed in each hospital by a multidisciplinary committee consisting of physicians, nurses, ancillary managers and administration. The committee performs peer review, monitoring all functions within the hospital, identifying opportunities to improve, recommending actions and following up on the changes to assure improvement. The committee and its administrative support department, quality management and the corporate quality improvement services department meet regularly to address specific problems, program integrity, and ways to improve patients care under a "Total Quality Management System." Continual review, analysis and training provided through the quality improvement program provides patients, physicians and third party payors assurance that efficient, quality patient care receives the highest priority at each of the Company's hospitals. The Company's efforts in maintaining high quality care have been recognized. Recent awards include (i) the 1994 Quality and Productivity Award being given by the United States Senate to Valley Hospital Medical Center; (ii) 30% of the Company's hospitals, consisting of Keystone Center, Chalmette Medical Center, Turning Point Hospital, HRI Hospital, The Arbour, Del Amo Hospital, River Parishes Hospital, Two Rivers Psychiatric Hospital and Manatee, receiving JCAHO Accreditation with Commendation (awarded to only 5% of hospitals, nationally); and (iii) the Company being recognized by the Pennsylvania Council of Excellence for quality management accomplishment. Northwest Texas Health, recently acquired by the Company, also received JCAHO Accreditation with Commendation.

Attract Managed Care Contracts

The Company has extensive experience in working with managed care providers. Pressures to control healthcare costs have resulted in a continuing increase in the percentage of the United States population that is covered by managed healthcare plans. To increase the cost-effectiveness of healthcare delivery, managed care payors have introduced new utilization review systems and have increased the use of discounted and capitated fee arrangements. Further, managed care payors have attempted, where appropriate, to direct patients to less intensive alternatives along the continuum of patient care. Management has responded to this trend by increasing the outpatient services offered at its hospitals and behavioral health centers. In addition, the Company also continues to add to its Ambulatory Treatment Centers Division, acquiring nine facilities in 1994, and four facilities in 1995. In determining with which providers to contract, payors consider, among other factors, the quality of care provided, the range of services, the geographic coverage and the cost-effectiveness of the care provided. The Company believes that the development and expansion of its integrated healthcare delivery systems will enable it to better compete for managed care contracts with payors, which, in turn, should allow it to expand its patient volume and cash flow, notwithstanding the reduced rates at which services are provided.

OPERATIONS

After giving effect to the recent acquisition of Northwest Texas Health, the Company will derive the majority of its revenue from McAllen Medical Center, Valley Hospital, Manatee, Aiken and Northwest Texas Health. Following is a brief discussion of these facilities and their respective geographic areas and certain of the Company's other operations:

McAllen, Texas. McAllen, located in the Rio Grande Valley area of Texas, is the center of a 200-mile wide consumer market area with more than ten million people. McAllen and its surrounding communities are in the fourth fastest growing MSA in the country. Furthermore, the population in McAllen increases significantly in the winter months with the inflow of retirees from the northern states. The Company's McAllen Medical Center, a 475-bed facility, is the largest hospital in the Rio Grande Valley and is the hub of a five-hospital delivery network organized by the Company. The medical center offers a wide range of services including general medical/surgical care, a 24-hour emergency room, oncology care, cardiac care, obstetric, pediatric and neonatal care and laser surgery. On a pro forma basis, assuming the Adjustments and excluding the Indigent Care Reimbursements, McAllen Medical Center would have contributed 15% of the Company's net revenues for the year ended December 31, 1995, and 30% of the Company's EBITDAR for such period.

The Company acquired Edinburg Hospital in 1994, a 112-bed acute care facility. Located eight miles north of McAllen, this facility enhances the Company's delivery network in this rapidly growing area. The Company is further expanding its presence in the McAllen market by building a new 124-bed acute care hospital in Edinburg and converting the existing property to a nursing and rehabilitation facility.

Las Vegas, Nevada. The Company's Valley Hospital is a 398-bed hospital located in Las Vegas. Las Vegas is in the fastest growing MSA in the country. On a pro forma basis, assuming the Adjustments and excluding the Indigent Care Reimbursements, Valley Hospital would have contributed 14% of the Company's net revenues for the year ended December 31, 1995, and 24% of the Company's EBITDAR for such periods. To enhance its competitive position in the Las Vegas market, Valley Hospital recently underwent a major expansion of its emergency room facility, established an outpatient surgery center and is establishing a neonatal intensive care unit.

The Company has begun construction of a new facility in Summerlin, Nevada which is a master planned community located in western Las Vegas. The new Summerlin Medical Center will be completed in three phases and will consist of a 100,000 square foot medical building, an outpatient surgery and diagnostic center and a 148-bed acute care hospital. Howard Hughes Corporation has granted to the Company the exclusive right to operate medical facilities in Summerlin. See "Prospectus Summary--Recent Events."

Manatee County, Florida. Manatee County is located approximately 50 miles south of Tampa on the Gulf Coast of Florida. The County has a current population of approximately 250,000. The Company's Manatee Memorial Hospital ("Manatee"), a 512-bed facility, has a location which will benefit from the continuing eastern expansion of the County. Manatee offers a wide range of services from primary medical and surgical procedures to obstetric, pediatric, psychiatric and a broad range of specialized programs. The Manatee Heart Center offers the full range of cardiac care from catheterization and non-invasive procedures to open heart surgery. The Manatee Center for Women's Health offers neonatal care in addition to its obstetric and gynecological services. The Emergency Care Center is a state-of-the-art facility servicing 90% of the trauma cases in the County. Manatee also offers a full range of outpatient services to the community. It is the only hospital in the County to operate a Life Management inpatient and outpatient program for mentally ill individuals. Recently, Manatee opened its new Surgery and Outpatient Services Center which provides outpatient services to the community through twelve new surgical suites and arrays of diagnostic tests and surgical procedures.

Assuming the Adjustments and excluding the Indigent Care Reimbursements, Manatee would have contributed 11% of the Company's net revenues for the year ended December 31, 1995, and 12% of the Company's EBITDAR for such period.

Aiken, South Carolina. Aiken Regional Medical Centers ("Aiken"), a 225-bed medical complex, is the only hospital located in Aiken County, South Carolina. Aiken County, which is located in west central South Carolina, has a population of approximately 130,000 people. Aiken serves Aiken County, as well as three other counties in South Carolina with a total market of approximately 180,000 people. Aiken's facilities include a modern, full service acute care hospital, which recently commenced offering open heart surgeries, and a behavioral health center.

Amarillo, Texas. Amarillo is located in the Texas panhandle, has a current population of approximately 200,000 and is located 90 miles from the next largest city. Northwest Texas Health, a 360-bed medical complex, includes a full service acute care hospital offering primary medical and surgical procedures and specialized programs. The hospital is the leading provider of emergency, trauma, obstetrics, neonatal and pediatric care in the market. Northwest Texas Health is one of two hospitals in Amarillo and is the teaching facility of Texas Tech University.

Behavioral Health Centers. The majority of the Company's behavioral health centers are either the first or second largest facility in their respective markets, ranked by beds/revenues.

Ambulatory Treatment Centers. The Company has also established market leadership positions with most of its ambulatory surgery centers and radiation oncology centers. The majority of the Company's surgery centers are the sole free standing providers in their respective markets and all except one of the Company's free standing radiation centers are the sole providers. The Company seeks to acquire ambulatory surgery centers and radiation oncology centers which are the sole free standing providers in a market since these centers provide a cost-effective alternative to the local hospital.

Other Activities. The Company recently has constructed and opened its first combined women's hospital and obstetrician physician practice management center in Edmond, Oklahoma, a suburb of Oklahoma City. The strategy of the Company in establishing this hospital, Renaissance Centers For Women, is to develop and manage fully integrated specialty hospitals and physician clinic practices of obstetricians. The hospital houses the most modern LDRP suites, operating rooms, laboratory, and imaging capabilities generally available to this physician specialty. The Company may construct additional centers and manage additional OB/GYN practices in the future.

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	INTEREST
Aiken Regional Medical Centers...	Aiken, South Carolina	225	Owned
Auburn General Hospital..........	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	475	Leased
Northern Nevada Medical Center(3)......................	Sparks, Nevada	150	Owned
Northwest Texas Health Systems...	Amarillo, Texas	360	Owned
Renaissance Centers for Women(4).......................	Edmond, Oklahoma	14	Owned
River Parishes Hospitals(5)......	LaPlace and Chalmette, Louisiana	175	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
The Arbour Hospital................	Boston, Massachusetts	118	Owned
The BridgeWay(1)...................	North Little Rock, Arkansas	70	Leased
Clarion Psychiatric Center.........	Clarion, Pennsylvania	52	Acquisition Pending
Del Amo Hospital...................	Torrance, California	166	Owned
Forest View Hospital...............	Grand Rapids, Michigan	62	Owned
Fuller Memorial Psychiatric Hospital.........................	South Attleboro, Massachusetts	82	Owned
Glen Oaks Hospital.................	Greenville, Texas	54	Owned
The Horsham Clinic.................	Ambler, Pennsylvania	138	Acquisition Pending
HRI Hospital.......................	Brookline, Massachusetts	68	Owned
KeyStone Center(6).................	Wallingford, Pennsylvania	84	Owned
La Amistad Residential Treatment Center...........................	Maitland, Florida	56	Owned
Meridell Achievement Center(1).....	Austin, Texas	114	Leased
The Meadows Psychiatric Center.....	Centre Hall, Pennsylvania	101	Acquisition Pending
The Pavilion.......................	Champaign, Illinois	46	Owned
River Crest Hospital...............	San Angelo, Texas	80	Owned
River Oaks Hospital................	New Orleans, Louisiana	126	Owned
Roxbury Psychiatric Center.........	Shippensburg, Pennsylvania	71	Acquisition Pending
Turning Point Hospital(6)..........	Moultrie, Georgia	59	Owned
Two Rivers Psychiatric Hospital....	Kansas City, Missouri	80	Owned

AMBULATORY SURGERY CENTERS

NAME OF FACILITY(8)	LOCATION
Arkansas Surgery Center of Fayetteville	Fayetteville, Arkansas
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 Corona	Corona, California
Surgery Center of Waltham	Waltham, Massachusetts

RADIATION ONCOLOGY CENTERS

NAME OF FACILITY	LOCATION
Auburn Regional Center for Cancer Care	Auburn, Washington
Bowling Green Radiation Oncology Associates(7)	Bowling Green, Kentucky
Blue Grass Regional Cancer Center(7)	Frankfort, Kentucky
Columbia Radiation Oncology	Washington, D.C.
Danville Radiation Therapy Center(7)	Danville, Kentucky
Glasgow Radiation Oncology Associates(7)	Glasgow, Kentucky
Louisville Radiation Oncology(7)	Louisville, Kentucky
Madison Radiation Oncology Associates(9)	Madison, Indiana
McAllen Medical Center Cancer Institute	McAllen, Texas
Regional Cancer Center at Wellington	West Palm Beach, Florida
Southern Indiana Radiation Therapy(9)	Jeffersonville, Indiana

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(1) Real property leased from Universal Health Realty Income Trust, a real estate investment trust, for which the Company provides advisory services ("UHT").

(2) Real property leased with an option to purchase.

(3) General partnership interest in limited partnership.

(4) 88% of stock owned by the Company.

(5) Includes Chalmette Hospital, a 73-bed rehabilitation facility. The Company owns the LaPlace real property and leases the Chalmette real property from UHT.

(6) Addictive disease facility.

(7) Managed Facility. A partnership, in which the Company is the general partner, owns the real property.

(8) 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.

(9) A partnership in which the Company is the general partner owns the real property.

BED UTILIZATION AND OCCUPANCY RATES

The following table shows the bed utilization and occupancy rates for the hospitals operated by the Company as of March 31, 1996, for the periods indicated. Accordingly, the information is presented on a basis different from that used in preparing the historical financial information included or incorporated by reference in this Prospectus. 1995 (Pro forma) and the three months ended March 31, 1996 (pro forma) assumes the effect of the Adjustments as if they occurred on the first day of the period presented.

	1992	1993	1994	1995	1995 (PRO FORMA)	(UNAUDITED) THREE MONTHS ENDED MARCH 31, 1995	1996	1996 (PRO FORMA)
Average Licensed Beds								
Acute Care Hospitals........	2,645	2,730	2,791	2,808	3,168	2,789	2,797	3,154
Behavioral Health Centers...	1,206	1,216	1,224	1,256	1,631	1,265	1,267	1,633
Hospital Admissions								
Acute Care Hospitals........	83,826	87,174	92,911	100,004	113,476	25,704	27,551	30,887
Behavioral Health Centers...	13,505	15,560	16,804	17,888	24,848	4,197	4,298	6,019
Average Length of Patient Stay (Days)								
Acute Care Hospitals.........	5.8	5.6	5.3	5.1	5.2	5.2	5.1	5.1
Behavioral Health Centers...	15.6	13.0	11.6	11.2	12.3	12.0	12.1	13.1
Patient Days (1)								
Acute Care Hospitals........	485,015	486,291	496,462	511,487	595,328	134,470	140,088	158,726
Behavioral Health Centers...	211,390	202,047	195,004	200,857	304,800	50,553	52,083	78,659

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

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 out-patient 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.

The following table shows the approximate percentages of net patient revenue derived by the Company's hospitals owned as of December 31, 1995, since their respective dates of acquisition by the Company, from third party sources excluding the effect of special Medicaid reimbursements received at the Company's Texas acute care hospitals of $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, 1995. 1995 (Pro forma) assumes the following transactions occurred on January 1, 1995: (i) Northwest Texas Health acquisition (acquired in May 1996); (ii) First Hospital Properties acquisition (expected to be completed in June 1996 subject to regulatory approval); (iii) acquisition of Manatee (acquired in August 1995); (iv) the acquisition of Aiken and the divestiture of Dallas Family Hospital and Westlake Medical Center (transaction completed in July 1995); and (v) the disposition of Universal Medical Center (disposed of in October 1995).

	Percentage of Net Patient Revenues					
	1991	1992	1993	1994	1995	1995 (Pro forma)
Third Party Payors:						
Medicare	29.7%	32.2%	32.1%	32.7%	35.0%	33.7%
Medicaid	4.9%	7.1%	10.4%	11.8%	12.5%	15.3%
Other Sources (including Blue Cross)	65.4%	60.7%	57.5%	55.5%	52.5%	51.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Net revenues of the Company 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.

SELLING STOCKHOLDER

NAME OF SELLING STOCKHOLDER	SHARES BENEFICIALLY OWNED BEFORE OFFERING		NUMBER OF SHARES OF COMMON STOCK OFFERED FOR SALE	SHARES BENEFICIALLY OWNED AFTER OFFERING	
	NUMBER	PERCENT		NUMBER	PERCENT
Alan B. Miller					
Class A Common Stock(1)(3)....	2,035,016	93%	313,482(1)	1,721,534	92%
Class B Common Stock(2).......	215,020(2)	1%	55,170	159,850(2)	1%
Class C Common Stock(1)(3)....	203,460	93%	31,348(1)	172,112	92%
Class D Common Stock..........	0	--	--	--	--

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(1) Shares of Class A and Class C Common Stock are convertible on a share-for-share basis into Class B Common Stock. Mr. Miller will convert 313,482 shares of Class A Common Stock and 31,348 shares of Class C Common Stock into 313,482 and 31,348 shares of Class B Common Stock, respectively, immediately prior to the Offering.

(2) Includes 150,000 shares of Class B Common Stock issuable upon the exercise of stock options exercisable within 60 days of the date hereof.

(3) Does not include 126,138 shares of Class A Common Stock and 12,724 shares of Class C Common Stock owned by two directors of the Company which Mr. Miller, pursuant to the terms of a Stockholders' Agreement, has the right to vote in certain circumstances.

DESCRIPTION OF COMMON STOCK

The Company's authorized capital stock consists of 12,000,000 shares of Class A Common Stock, $.01 par value per share, 50,000,000 shares of Class B Common Stock, $.01 par value per share, 1,200,000 shares of Class C Common Stock, $.01 par value per share, and 5,000,000 shares of Class D Common Stock, $.01 par value per share.

Class A Common Stock, Class B Common Stock, Class C Common Stock and Class D Common Stock are substantially similar except that each class has different voting rights. Each share of Class A Common Stock has one vote per share; each share of Class B Common Stock has one-tenth vote per share; each share of Class C Common Stock has one hundred votes per share; and each share of Class D Common Stock has ten votes per share. Notwithstanding the foregoing, if a holder of Class C or Class D Common Stock holds a number of shares of Class A or Class B Common Stock, respectively, which is less than ten times the number of shares of Class C or Class D Common Stock, respectively, that such holder holds, then such holder will only be entitled to one vote per share of Class C Common Stock and one-tenth vote per share of Class D Common Stock.

The holders of Class B and Class D Common Stock, voting together, with each share of Class B and Class D Common Stock having one vote per share, are entitled to elect the greater of 20% of the Company's Board of Directors or one director. The holders of Class B and Class D Common Stock are also permitted to vote together as a separate class with respect to certain other matters or as required by applicable law. Holders of Class A and Class C Common Stock, voting as a single class, elect the remaining directors and vote together with the holders of Class B and Class D Common Stock on all other matters.

UNDERWRITING

Upon the terms and subject to conditions stated in the Underwriting Agreement dated the date hereof, each Underwriter named below has severally agreed to purchase, and the Company and the Selling Stockholder have agreed to sell to such Underwriter, shares of Class B Common Stock which equal the number of shares set forth opposite the name of such Underwriter below.

UNDERWRITER	NUMBER OF SHARES
Smith Barney Inc.	
Bear, Stearns & Co. Inc	
Dillon, Read & Co. Inc	
Donaldson, Lufkin & Jenrette Securities Corporation	
J.P. Morgan Securities Inc	
Total	4,400,000

The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the Class B Common Stock are subject to the approval of certain legal matters by counsel and to certain other conditions. The Underwriters are obligated to take and pay for all of the shares offered hereby if any are taken (other than those covered by the overallotment option described below).

The Underwriters, for whom Smith Barney Inc., Bear, Stearns & Co. Inc., Dillon, Read & Co. Inc., Donaldson, Lufkin & Jenrette Securities Corporation and J.P. Morgan Securities Inc., are acting as representatives propose to offer part of the shares directly to the public at the public offering price set forth on the cover page hereof and part to certain dealers at a price which represents a concession not in excess of $ per share. The Underwriters may allow, and such dealers may reallow, a discount of not more than $ per share to other Underwriters or certain other dealers.

The Company has granted to the Underwriters a 30-day option to purchase up to 660,000 additional shares of Class B Common Stock at the price to the public all as set forth on the cover page of this Prospectus less the underwriting discounts and commissions. The Underwriters may exercise such option solely for the purpose of covering over allotments made in connection with the sale of shares offered hereby. To the extent that such option is exercised, each Underwriter will be obligated, subject to certain conditions, to purchase approximately the same percentage of such additional shares as the number of shares set forth opposite each Underwriter's name in the preceding table bears to the total number of shares listed in such table.

The Company and its executive officers and directors have agreed that, for a period of 90 days from the date of this Prospectus, they will not, without the prior written consent of Smith Barney Inc., offer, sell, contract to sell, or otherwise dispose of, any shares of Class B Common Stock of the Company or any securities convertible into, or exercisable or exchangeable for Class B Common Stock of the Company, except in the case of the Company in connection with certain permitted issuances described in the Underwriting Agreement.

In connection with the repayment of debt with a portion of the proceeds of the Offering, see "Use of Proceeds," more than 10% of the net offering proceeds will be paid to or for the beneficial interest of members of the National Association of Securities Dealers, Inc. ("NASD") and affiliated and associated persons of NASD members. Therefore, the Offering is being made in compliance with subsection (c)(8) of the NASD's Corporate Financing Rule.

Robert H. Hotz, a director of the Company, is a Managing Director and Co-Head of Corporate Finance at Dillon, Read & Co. Inc., a managing underwriter of this Offering. The Company has engaged and intends in the future to engage Dillon, Read & Co. Inc. in connection with such financial matters as it deems appropriate.

The Company and the Selling Stockholder have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act.

LEGAL MATTERS

The validity of the Class B Common Stock offered hereby will be passed upon for the Company and the Selling Stockholder by Fulbright & Jaworski L.L.P., 666 Fifth Avenue, New York, New York 10103. Anthony Pantaleoni, a director of the Company who owns less than one percent of the outstanding capital stock of the Company, is a partner in Fulbright & Jaworski L.L.P. The validity of the Class B Common Stock offered hereby will be passed upon for the Underwriters by Dewey Ballantine, 1301 Avenue of the Americas, New York, New York 10019.

EXPERTS

The consolidated financial statements and schedule of Universal Health Services, Inc. and subsidiaries as of December 31, 1994 and 1995, and for each of the three years in the period ended December 31, 1995, and the financial statements of Aiken Regional Medical Centers as of and for the year ended December 31, 1994, included or incorporated by reference in this Registration Statement have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included or incorporated by reference herein in reliance upon the authority of said firm as experts in giving said reports.

The combined financial statements of Manatee Hospitals and Health Systems, Inc. at August 31, 1993 and 1994, and for the years then ended incorporated by reference in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent Certified Public Accountants, as set forth in their report thereon, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

The financial statements of Northwest Texas Healthcare System as of September 30, 1995, and for the year then ended appearing in this Prospectus and Registration Statement have been audited by Clifton, Gunderson & Co., independent Certified Public Accountants, as set forth in their report thereon appearing elsewhere herein and in the Registration Statement, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing. The report of Clifton, Gunderson & Co. covering the September 30, 1995 financial statements refers to an emphasis of the accounting reporting entity and to a change in accounting for investment securities.

The financial statements of Northwest Texas Healthcare System as of September 30, 1994, and for the year then ended appearing in this Prospectus and Registration Statement have been audited by KPMG Peat Marwick LLP, independent Certified Public Accountants, as set forth in their report thereon appearing elsewhere herein and in the Registration Statement, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing. The report of KPMG Peat Marwick LLP, covering the September 30, 1994 financial statements refers to an emphasis of the financial reporting entity and to a change in accounting for investment securities.

INDEX TO 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, 1994 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, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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, 1994 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, 1995 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Philadelphia, PA
February 10, 1996
(except with respect to the matter
discussed in Note 12, as to which the
date is April 26, 1996)

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEAR ENDED DECEMBER 31

	1993	1994	1995
Net revenues	$761,544,000	$782,199,000	$931,126,000
Operating charges			
Operating expenses	299,645,000	298,108,000	361,049,000
Salaries and wages	280,041,000	286,297,000	329,939,000
Provision for doubtful accounts	55,409,000	58,347,000	76,905,000
Depreciation & amortization	39,599,000	42,383,000	51,371,000
Lease and rental expense	34,281,000	34,097,000	36,068,000
Interest expense, net	8,645,000	6,275,000	11,195,000
Nonrecurring charges	8,828,000	9,763,000	11,610,000
Total operating charges	726,448,000	735,270,000	878,137,000
Income before income taxes	35,096,000	46,929,000	52,989,000
Provision for income taxes	11,085,000	18,209,000	17,505,000
Net income	$ 24,011,000	$ 28,720,000	$ 35,484,000
Earnings per common & common share equivalent (fully diluted)	$ .86	$ 1.01	$ 1.26
Weighted average number of common shares and equivalents	29,638,000	28,778,000	28,158,000

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31 1994	DECEMBER 31 1995
ASSETS		
Current Assets		
Cash and cash equivalents	$ 780,000	$ 34,000
Accounts receivable, net of allowance of $34,957,000 in 1994 and $49,016,000 in 1995 for doubtful accounts	84,818,000	114,163,000
Supplies	15,723,000	18,207,000
Deferred income taxes	12,942,000	18,989,000
Other current assets	4,126,000	5,529,000
Total current assets	118,389,000	156,922,000
Property and Equipment		
Land	34,159,000	36,055,000
Buildings and improvements	314,545,000	348,182,000
Equipment	218,844,000	206,193,000
Property under capital lease	24,782,000	27,415,000
	592,330,000	617,845,000
Less accumulated depreciation	265,059,000	248,540,000
	327,271,000	369,305,000
Construction in progress	4,372,000	23,683,000
	331,643,000	392,988,000
Other assets		
Excess of cost over fair value of net assets acquired	38,762,000	136,206,000
Deferred income taxes	2,742,000	17,283,000
Deferred charges	1,527,000	11,466,000
Other	28,429,000	33,186,000
	71,460,000	198,141,000
	$521,492,000	$748,051,000
LIABILITIES AND COMMON STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt	$ 7,236,000	$ 7,125,000
Accounts payable	37,185,000	52,855,000
Accrued liabilities		
Compensation and related benefits	20,208,000	20,470,000
Interest	2,442,000	5,513,000
Other	32,294,000	47,180,000
Federal and state taxes	4,417,000	1,874,000
Total current liabilities	103,782,000	135,017,000
Other Noncurrent Liabilities	71,956,000	78,248,000
Long-Term Debt	85,125,000	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 1,090,527 shares in 1994 and 1,090,527 in 1995	11,000	11,000
Class B Common Stock, limited voting, $.01 par value; authorized 50,000,000 shares; issued and outstanding 12,591,854 shares in 1994 and 12,658,818 in 1995	126,000	127,000
Class C Common Stock, voting, $.01 par value; authorized 1,200,000 shares; issued and outstanding 109,622 shares in 1994 and 109,622 in 1995	1,000	1,000
Class D Common Stock, limited voting, $.01 par value; authorized 5,000,000 shares; issued and outstanding 22,769 shares in 1994 and 20,503 in 1995	--	--
Capital in excess of par value, net of deferred compensation of $414,000 in 1994 and $941,000 in 1995	88,295,000	89,881,000
Retained earnings	172,196,000	207,680,000
	260,629,000	297,700,000
	$521,492,000	$748,051,000

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1993, 1994 AND 1995

	CLASS A COMMON	CLASS B COMMON	CLASS C COMMON	CLASS D COMMON	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	TOTAL
Balance January 1, 1993	$12,000	$123,000	$1,000	--	$83,302,000	$119,465,000	$202,903,000
Common Stock							
Issued	--	1,000	--	--	518,000	--	519,000
Converted	(1,000)	1,000	--	--	--	--	--
Repurchased	--	(3,000)	--	--	(3,233,000)	--	(3,236,000)
Amortization of deferred compensation	--	--	--	--	333,000	--	333,000
Cancellation of stock grant	--	--	--	--	(42,000)	--	(42,000)
Net income	--	--	--	--	--	24,011,000	24,011,000
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 December 31, 1995	$11,000	$127,000	$1,000	--	$89,881,000	$207,680,000	$297,700,000

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

	1993	1994	1995
Cash Flows from Operating Activities:			
Net income	$ 24,011,000	$ 28,720,000	$ 35,484,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	39,599,000	42,383,000	51,371,000
Provision for self-insurance reserves	20,755,000	10,810,000	14,291,000
Other non-cash charges	8,828,000	9,763,000	11,610,000
Changes in assets and liabilities, net of effects from acquisitions and dispositions:			
Accounts receivable	12,928,000	(4,380,000)	(5,125,000)
Accrued interest	(412,000)	(805,000)	3,071,000
Accrued and deferred income taxes	(8,990,000)	(9,944,000)	(20,826,000)
Other working capital accounts	4,858,000	1,710,000	10,944,000
Other assets and deferred charges	(5,804,000)	(3,064,000)	(3,982,000)
Other	1,002,000	(42,000)	3,390,000
Payments made in settlement of self-insurance claims	(12,135,000)	(14,527,000)	(8,479,000)
Net cash provided by operating activities	84,640,000	60,624,000	91,749,000
Cash Flows from Investing Activities:			
Property and equipment additions	(47,319,000)	(43,998,000)	(60,734,000)
Disposition of assets	227,000	1,132,000	2,321,000
Acquisition of properties previously leased	(3,218,000)	(5,771,000)	--
Acquisition of businesses	(11,526,000)	(16,794,000)	(187,865,000)
Acquisition of assets held for lease	--	(9,059,000)	(3,561,000)
Disposition of businesses	18,492,000	3,791,000	19,495,000
Other investments	--	(1,079,000)	--
Net cash used in investing activities	(43,344,000)	(71,778,000)	(230,344,000)
Cash Flows from Financing Activities:			
Additional borrowings, net of financing costs	1,800,000	45,469,000	149,323,000
Reduction of long-term debt	(46,496,000)	(21,981,000)	(12,009,000)
Issuance of common stock	519,000	1,026,000	535,000
Repurchase of common shares	(3,236,000)	(13,149,000)	--
Net cash provided by (used in) financing activities	(47,413,000)	11,365,000	137,849,000
Increase (Decrease) in Cash and Cash Equivalents	(6,117,000)	211,000	(746,000)
Cash and Cash Equivalents, Beginning of Period	6,686,000	569,000	780,000
Cash and Cash Equivalents, End of Period	$ 569,000	$ 780,000	$ 34,000
Supplemental Disclosures of Cash Flow Information:			
Interest paid	$ 9,057,000	$ 7,080,000	$ 8,124,000
Income taxes paid, net of refunds	$ 19,901,000	$ 28,153,000	$ 38,331,000
Supplemental Disclosures of Non-cash Investing and Financing Activities: See Notes 2 and 6			

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

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of Universal Health Services, Inc. (the "Company") and 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, 1995, the Company operated 29 hospitals, consisting of 14 acute care hospitals and 15 behavioral health centers, in Arkansas, California, Florida, Georgia, Illinois, Louisiana, Massachusetts, Michigan, Missouri, Nevada, 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 25 surgery and radiation oncology centers located in 14 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 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.

Net revenues from the Company's acute care hospitals, and ambulatory treatment centers accounted for 84%, 85% and 86% of consolidated net revenues in 1993, 1994 and 1995, 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 43%, 44% and 48% of net patient revenues for the years 1993, 1994 and 1995, respectively, excluding the additional revenues from special Medicaid reimbursement programs described in Note 11.

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 straightline 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 $52,261,000 in 1994 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, 1994 and 1995, the cash surrender value of the policies ($41.3 million and $34.3 million) were recorded net of related loans ($41.0 million and $34.4 million) and is included in other assets.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(CONTINUED)

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. See Note 9.

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 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. The 1993 and 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 $498,000, $266,000 and $567,000 in 1993, 1994 and 1995, 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 value of the Company's registered debt, interest rate swap agreements and investments is based on quoted market prices. The carrying amounts reported in the balance sheet for cash, accrued liabilities, and short-term borrowings approximates fair value 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

1995--During the second quarter, the Company acquired an 82-bed psychiatric hospital 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 $4.3 million and a $2.7 million pre-tax charge in the 1994 and 1995 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 ("UMC"), 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.

In September, 1995, the Company signed a letter of intent to acquire Northwest Texas Hospital, a 360-bed acute care facility located in Amarillo, Texas. The closing of this transaction, which is expected to be completed during the second quarter of 1996, is subject to a number of conditions. Cash consideration is expected to approximate $120 million in addition to payments by the Company to the Amarillo Hospital District of 15% of any amount of earnings before depreciation, interest and taxes in excess of $24 million in each year of the seven year period commencing April 1, 1996 and ending March 31, 2003. In addition under terms of the agreement, the Amarillo Hospital District 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 service to indigent patients.

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. 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 1995 and may not be indicative of future operating results.

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

2) ACQUISITIONS AND DIVESTITURES--(CONTINUED)

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. Approximately $2.2 million was spent on this project during 1995.

Operating results of the hospital located in Edinburg have been included in the financial statements from the date of acquisition. Assuming the above Edinburg, Aiken and Manatee 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 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 1994 and may not be indicative of future operating results.

1993--During 1993 the Company purchased a radiation therapy center and majority interests in four separate partnerships which own and operate ambulatory surgery facilities for $11.5 million in cash and the assumption of liabilities totaling $300,000.

During the fourth quarter, the Company sold the operations and fixed assets of a 124-bed acute care hospital for approximately $7.8 million in cash. The Company also sold the operations and certain fixed assets of a 134-bed acute care hospital for cash of $1.5 million. Concurrently, the Company sold certain related real property to Universal Health Realty Income Trust (the "Trust"), an affiliate and the lessor of this 134-bed acute care hospital, for $1 million in cash and a note receivable of $900,000 (see Note 8). In connection with this transaction, the Company's lease with the Trust for this property was terminated. The disposition of these two facilities resulted in a pre-tax loss of $4.4 million ($2.2 million after tax), which is included in nonrecurring charges in the 1993 consolidated statement of income.

Also during 1993, the Company recorded a pre-tax charge of $4.4 million related to the winding down or disposition of other non-strategic businesses which is included in nonrecurring charges in the 1993 consolidated statement of income.

3) LONG-TERM DEBT

A summary of long-term debt follows:

	DECEMBER 31	
	1994	1995
Long-term debt:		
Notes payable (including obligations under capitalized leases of $14,004,000 in 1994 and $14,220,000 in 1995) with varying maturities through 2001; weighted average interest at 6.9% in 1995 and 1994 (see Note 6 regarding capitalized leases)	$ 19,442,000	$ 20,443,000
Mortgages payable, interest at 6.0% to 9.0% with varying maturities through 2000	3,745,000	2,184,000
Revolving credit and demand notes	8,950,000	21,450,000
Commercial paper	38,500,000	48,000,000
Revenue bonds: interest at floating rates ranging from 5.0% to 5.2% at December 31, 1995 with varying maturities through 2015	21,724,000	18,200,000
8.75% Senior Notes due 2005, net of the unamortized discount of $1,066,000	--	133,934,000
	92,361,000	244,211,000
Less-Amounts due within one year	7,236,000	7,125,000
	$ 85,125,000	$237,086,000

During the third quarter of 1995, the Company completed the issuance of $135 million of Senior Notes 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 102.265%, 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 acquisitions described in Note 2. 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 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. 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 1995. 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, 1995 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, 1995,

3) LONG-TERM DEBT--(CONTINUED)

the Company had $207 million of unused borrowing capacity available under the revolving credit agreement.

The average amounts outstanding during 1993, 1994 and 1995 under the revolving credit and demand notes and commercial paper program were $25,069,000, $16,324,000 and $46,984,000, respectively with corresponding effective interest rates of 4.6%, 7.9% and 8.0% including commitment fees. The maximum amounts outstanding at any month-end were $46,800,000, $47,450,000 and $79,450,000 during 1993, 1994 and 1995, respectively.

Substantially all 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. A fee of .76% is required on this $50 million commitment. 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, 1995, the Company had one interest rate swap agreement with a notional principal amount of $10 million. This agreement calls for the payment of interest at a fixed rate by the Company in return for payment of a variable rate interest by a commercial bank. This swap effectively fixes the Company's interest rate on $10 million of its floating rate debt at 9.015%. The interest rate swap expires in March, 1996. The effective interest rate on the Company's revolving credit, demand notes and commercial paper program including the interest rate swap expense was 13.9%, 16.1% and 8.4% during 1993, 1994 and 1995, respectively. Additional interest expense recorded as a result of the Company's hedging activity was $3,160,000, $1,981,000 and $209,000 in 1993, 1994 and 1995, respectively. The Company is exposed to credit loss in the event of non-performance by the counterparty to the interest rate swap agreement. This counterparty is a major financial institution which is rated AA by Moody's Investors Service and the Company does not anticipate nonperformance. The cost to terminate the swap obligation at December 31, 1994 and 1995, was approximately $151,000 and $113,000, 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. Management believes the Company is in compliance with all required covenants as of December 31, 1995.

The fair value of the Company's long-term debt at December 31, 1995 was approximately $247,302,000.

Aggregate maturities follow:

1996	$ 7,125,000
1997	6,300,000
1998	3,838,000
1999	2,644,000
2000	72,143,000
Later	152,161,000
Total	$244,211,000

4) COMMON STOCK

During 1993 and 1994, the Company repurchased 449,600 and 1,019,600 shares of Class B Common Stock, respectively, at an average purchase price of $7.20 and $12.90 per share, respectively, or an aggregate of approximately $3.2 million and $13.2 million, respectively. 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 $79.4 million of its Common Stock as of December 31, 1995. The repurchased shares are treated as retired.

At December 31, 1995 6,089,686 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 1994, the Company adopted a Stock Compensation Plan under which up to 100,000 Class B Common Shares may be granted to key employees, consultants and independent contractors, but not to officers or directors. The Plan will terminate on November 16, 2004, unless terminated sooner by the Board. In 1994, 3,600 shares were granted under this plan.

Under the terms of the Stock Bonus Plan adopted in 1992, eligible employees may elect to receive all or part of their annual bonuses in shares of restricted stock (the "Bonus Shares"). Those electing to receive Bonus Shares also receive additional restricted shares in an amount equal to 20% of their Bonus Shares (the "Premium Shares"). Restrictions on one-half of the Bonus Shares and one-half of the Premium Shares lapse after one year and the restrictions on the remaining shares lapse after two years. The Company has reserved 300,000 shares of Class B Common Stock for this plan and has issued 145,316 shares at December 31, 1995.

Under the terms of the Stock Ownership Plan, eligible employees may purchase shares of Class B Common Stock directly from the Company at the market price. The Company will loan each eligible employee an amount equal to 90% of the purchase price for the shares. The loans, which are partially recourse to the employee, bear interest at the applicable Federal rate and are due five years from the purchase date. Shares purchased under this plan are restricted from sale or transfer. Restrictions on one-half of the shares lapse after one year and restrictions on the remaining shares lapse after two years. The Company has reserved 200,000 shares of Class B Common Stock for this plan. As of December 31, 1995, 69,500 shares were sold under the terms of this plan.

The Company also has a Restricted Stock Purchase Plan which allows eligible participants to purchase shares of Class B Common Stock at par value, subject to certain restrictions. Under the terms of this plan, 600,000 shares of Class B Common Stock have been reserved for purchase by officers, key employees and consultants. The restrictions lapse at various dates, as determined by the Board of Directors, ranging from six months to five years from the date of purchase. The Company has issued 369,026 shares under this plan, of which 90,000, 82,672 and 93,348 became fully vested during 1993, 1994, and 1995, respectively. Compensation expense, based on the difference between the market price on the date of purchase and par value, is being amortized over the restriction period and was $240,000 in 1993, $148,000 in 1994 and $415,000 in 1995.

Effective January 1, 1996, the Company adopted a Stock Purchase Plan, subject to shareholder approval, which allows eligible employees to purchase shares of Class B Common Stock at a ten percent discount. The maximum number of shares of stock that can be issued under the plan is 800,000.

4) COMMON STOCK--(CONTINUED)

Stock options to purchase Class B Common Stock have been granted to officers, key employees and directors of the Company under various plans. During 1994 and 1995 the Board of Directors and shareholders, respectively, approved a 1,200,000 share increase in the reserve for Class B Common Stock available for grant, pursuant to the terms of the 1992 Stock Option Plan. Also during 1995, subject to shareholder approval, the Board of Directors approved a 1,000,000 share increase in the reserve for Class B Common Stock available for grant pursuant to the terms of the 1992 Stock Option Plan. 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.

Information with respect to these options is summarized as follows:

OUTSTANDING OPTIONS	NUMBER OF SHARES	AVERAGE OPTION PRICE
Balance, January 1, 1993	400,350	$ 5.70
Granted	14,800	$ 7.44
Exercised	(80,476)	$ 3.61
Cancelled	(6,000)	$ 6.25
Balance, January 1, 1994	328,674	$ 6.27
Granted	1,121,500	$ 11.03
Exercised	(31,976)	$ 5.49
Cancelled	(11,000)	$ 8.32
Balance, January 1, 1995	1,407,198	$ 10.06
Granted	621,000	$ 16.48
Exercised	(48,926)	$ 8.06
Cancelled	(9,750)	$ 9.25
Balance, December 31, 1995	1,969,522	$ 12.13

At December 31, 1995, 994,450 shares were available for grant. At December 31, 1995, options for 444,250 shares of Class B Common Stock with an aggregate purchase price of $4,023,852 (average of $9.06 per share) were exercisable.

In October 1995, the Financial Accounting Standards Board issued Statement No. 123, "Accounting for Stock-Based Compensation." The Statement 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 using the intrinsic value based method in APB Opinion No. 25. The Company intends to continue its accounting for equity instruments using APB No. 25. As a result, beginning in 1996, the Company will be required to make pro forma disclosures of net income and earnings per share as if the fair value based method of accounting had been applied.

5) INCOME TAXES

Components of income tax expense are as follows:

	YEAR ENDED DECEMBER 31		
	1993	1994	1995
Currently payable			
Federal	$17,315,000	$27,014,000	$33,659,000
State	1,136,000	3,009,000	4,434,000
	18,451,000	30,023,000	38,093,000
Deferred			
Federal	(6,482,000)	(10,412,000)	(17,912,000)
State	(884,000)	(1,402,000)	(2,676,000)
	(7,366,000)	(11,814,000)	(20,588,000)
Total	$11,085,000	$18,209,000	$17,505,000

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. The net effect of the impact of the 1993 tax law changes on the current and deferred tax provisions was immaterial.

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	
	1994	1995
Self-insurance reserves	$28,944,000	$30,401,000
Doubtful accounts and other reserves	9,921,000	14,185,000
State income taxes	(126,000)	73,000
Other deferred tax assets	382,000	--
Depreciable and amortizable assets	(17,319,000)	(4,466,000)
Conversion from cash basis to accrual basis of accounting	(5,017,000)	(2,509,000)
Other deferred tax liabilities	(1,101,000)	(1,412,000)
Total deferred taxes	$15,684,000	$36,272,000

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

	YEAR ENDED DECEMBER 31		
	1993	1994	1995
Federal statutory rate	35.0%	35.0%	35.0%
Nondeductible (deductible) depreciation, amortization and other	(3.9)	1.6	(4.1)
State taxes, net of Federal income tax benefit	0.5	2.2	2.1
Effective tax rate	31.6%	38.8%	33.0%

5) INCOME TAXES--(CONTINUED)

In 1995 and 1994, 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	
	1994	1995
Current deferred taxes		
Assets	$16,622,000	$22,910,000
Liabilities	(3,680,000)	(3,921,000)
Total deferred taxes-current	12,942,000	18,989,000
Noncurrent deferred taxes		
Assets	22,625,000	21,749,000
Liabilities	(19,883,000)	(4,466,000)
Total deferred taxes-noncurrent	2,742,000	17,283,000
Total deferred taxes	$15,684,000	$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	
	1994	1995
Land, buildings and equipment	$24,782,000	$27,415,000
Less: accumulated amortization	10,426,000	12,867,000
	$14,356,000	$14,548,000

6) LEASE COMMITMENTS--(CONTINUED)

Future minimum rental payments under lease commitments with a term of more than one year as of December 31, 1995, are as follows:

YEAR	CAPITAL LEASES	OPERATING LEASES
1996	$ 5,931,000	$ 26,004,000
1997	4,852,000	21,555,000
1998	2,697,000	19,270,000
1999	1,543,000	17,984,000
2000	858,000	14,485,000
Later Years	--	20,679,000
Total minimum rental	$15,881,000	$119,977,000
Less: Amount representing interest	1,661,000	
Present value of minimum rental commitments	14,220,000	
Less: Current portion of capital lease obligations	5,117,000	
Long-term portion of capital lease obligations	$ 9,103,000	

Capital lease obligations of $5,371,000, $4,654,000 and $4,961,000 in 1993, 1994 and 1995, 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 liability risks for claims limited to $5 million per occurrence and for professional liability risks for claims limited to $25 million per occurrence. 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.

As of December 1994 and 1995, the reserve for professional and general liability risks was $62.4 million and $67.2 million, respectively, of which $11.0 million and $22.8 million in 1994 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.

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.

The Company has outstanding letters of credit totalling $20.8 million related to the Company's self-insurance programs ($10.8 million), as support for various debt instruments ($1.3 million) and as support for a loan guarantee for an unaffiliated party ($8.7 million). The Company has also guaranteed approximately $1.1 million of loans.

7) COMMITMENTS AND CONTINGENCIES--(CONTINUED)

The Company is committed to invest at least an additional $30 million, over a ten year period, to renovate the existing facility and construct an additional facility related to its 1994 acquisition of a 112-bed acute care hospital located in Edinburg, Texas (See Note 2). The Company has also agreed to construct a medical complex, including a 129-bed acute care facility, in Summerlin, Nevada for a total cost of approximately $60 million.

The Company signed a letter of intent to acquire a 360-bed acute care hospital located in Amarillo, Texas. The closing of this transaction, which is expected to be completed during the second quarter of 1996, is subject to a number of conditions. Cash consideration is expected to approximate $120 million.

The Company estimates the cost to complete major construction projects in progress at December 31, 1995 will approximate $45.8 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 psychiatric hospitals. 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, 1995, 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 $757,000, $1,095,000 and $1,052,000 in 1993, 1994 and 1995, respectively, and is included in net revenues in the accompanying consolidated statements of income. The carrying value of this investment at December 31, 1994 and 1995 was $8,404,000 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, 1994 and 1995 was $11,261,000 and $12,489,000, respectively.

During 1993, pursuant to the terms of its lease with the Trust, the Company purchased the real property of a 48-bed psychiatric hospital located in Texas for $3.2 million. The real property of this hospital was previously leased by the Company and base rental payments continued under the existing lease until the date of sale. Operations at this hospital were discontinued during the first quarter of 1992, however, the facility is currently being utilized for outpatient services at one of the Company's acute care hospitals. Also during 1993, the Company sold to the Trust certain real estate assets of a 134-bed hospital located in Illinois for approximately $1.9 million. These assets consisted of additions and improvements made to the facility by the Company since the sale of the major portion of the real estate assets to the Trust in 1986. The operations of this facility were sold during 1993 to an operator unaffiliated with the Company.

As of December 31, 1995, 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,

8) RELATED PARTY TRANSACTIONS--(CONTINUED)

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 $16,600,000 in 1993, $15,700,000 in 1994 and $16,000,000 in 1995. The Company received an advisory fee of $880,000 in 1993, $909,000 in 1994 and $953,000 in 1995 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 Senior Notes issued during 1995.

9) OTHER NONRECURRING CHARGES

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 impacted 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 two geographic markets where three of the Company's ambulatory treatment centers are located have led management to conclude that there has been a permanent impairment in the carrying value those 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.

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. 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, 1995 are as follows:

Actuarial present value of benefit obligations as of December 31, 1995:	
Accumulated benefit obligation, including vested benefits of $29,890,000....	$ 32,197,000
Projected benefit obligation for service rendered to date.....................	$(37,211,000)
Plan assets at fair value, primarily listed stock and U.S. obligations........	20,008,000
Projected benefit obligation in excess of plan assets.........................	(17,203,000)
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions..	2,480,000
Accrued pension cost..	$(14,723,000)

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

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

Pension expense related to this plan is not material to the consolidated financial statements.

11) QUARTERLY RESULTS (UNAUDITED)

The following tables summarize the Company's quarterly financial data for the two years ended December 31, 1995.

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
Earning 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. These programs are scheduled to terminate in August, 1996. These amounts were recorded in the periods that the Company met all of the requirements to be entitled to these reimbursements. The second quarter results include a

11) QUARTERLY RESULTS (UNAUDITED)--(CONTINUED)

$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).

1994	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Net revenues	$194,432,000	$192,199,000	$191,512,000	$204,056,000
Income before income taxes	$ 16,794,000	$ 13,357,000	$ 9,622,000	$ 7,156,000
Net income	$ 10,287,000	$ 8,153,000	$ 5,835,000	$ 4,445,000
Earnings per share (fully diluted)	$ 0.36	$ 0.28	$ 0.21	0.16

Net revenues in 1994 include $12.4 million of additional revenues received from special Medicaid reimbursement programs. Of this amount, $3.0 million was recorded in each of the first and second quarters, $3.1 million in the third quarter and $3.3 million in the fourth quarter. Net revenues in the fourth quarter also include $3.0 million of proceeds related to the Company's previously disposed UK operations. The first quarter operating results also include approximately $1.3 million of expenses related to the disposition of a non-strategic business. The second quarter results include a $2.8 million write-down recorded against the book value of the real property of a psychiatric hospital owned by the Company and leased to an unaffiliated third party, which is currently in default under the terms of the lease. Also included in operating expenses during the second quarter is a $1.1 million favorable adjustment made to reduce the Company's workers' compensation reserves. The fourth quarter results include a $1.3 million write-down recorded against the book value of the real property of a psychiatric hospital owned by the Company and for which its lease was terminated by an unaffiliated third party and a $4.3 million charge related to the anticipated disposition of two acute care hospitals (See Note 2).

12) SUBSEQUENT EVENT

On April 26, 1996, the Company declared a two-for-one stock split in the form of a 100% stock dividend payable on May 17, 1996 to shareholders of record as of May 6, 1996. All classes of common stock will participate on a pro rata basis. The weighted average number of common shares and equivalents, earnings per common and common equivalent share, along with other share and per share data in these financial statements have been adjusted accordingly, to reflect the two-for-one stock split.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(000S OMITTED EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	1995	1996
Net revenues	$220,715	$271,616
Operating charges:		
Operating expenses	84,469	102,335
Salaries and wages	78,021	94,500
Provision for doubtful accounts	17,185	21,767
Depreciation and amortization	11,310	14,783
Lease and rental expense	8,772	9,405
Interest expense, net	1,614	4,648
	201,371	247,438
Income before income taxes	19,344	24,178
Provision for income taxes	7,503	8,677
Net income	$ 11,841	$ 15,501
Earnings per common and common share equivalents:	$ 0.42	$ 0.54
Weighted average number of common shares and equivalents:	27,884	28,712

See accompanying notes to these condensed consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(000S OMITTED)

	DECEMBER 31, 1995	MARCH 31, 1996 (UNAUDITED)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 34	$ 762
Accounts receivable, net	114,163	116,400
Supplies	18,207	18,330
Deferred income taxes	18,989	15,304
Other current assets	5,529	5,562
Total current assets	156,922	156,358
Property and equipment	641,528	668,037
Less: accumulated depreciation	(248,540)	(256,822)
	392,988	411,215
OTHER ASSETS:		
Excess of cost over fair value of net assets acquired	136,206	134,421
Deferred income taxes	17,283	18,717
Deferred charges	11,466	11,801
Other	33,186	35,430
	198,141	200,369
	$ 748,051	$ 767,942
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 7,125	$ 6,980
Accounts payable and accrued liabilities	126,018	126,871
Federal and state taxes	1,874	6,382
Total current liabilities	135,017	140,233
Other noncurrent liabilities	78,248	81,482
Long-term debt, net of current maturities	237,086	230,401
COMMON STOCKHOLDERS' EQUITY:		
Class A Common Stock, 1,092,527 shares outstanding in 1995, 2,181,054 in 1996	11	22
Class B Common Stock, 12,658,818 shares outstanding in 1995, 25,480,886 in 1996	127	255
Class C Common Stock, 109,622 shares outstanding in 1995, 219,244 in 1996	1	2
Class D Common Stock, 20,503 shares outstanding in 1995, 40,632 in 1996	--	--
Capital in excess of par, net of deferred compensation of $941,000 in 1995 and $516,000 in 1996	89,881	92,366
Retained earnings	207,680	223,181
	297,700	315,826
	$ 748,051	$ 767,942

See accompanying notes to these condensed consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(000S OMITTED--UNAUDITED)

	THREE MONTHS ENDED MARCH 31, 1995	THREE MONTHS ENDED MARCH 31, 1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 11,841	$ 15,501
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	11,310	14,783
Provision for self-insurance reserves	4,504	3,044
Changes in assets & liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	(5,693)	(2,237)
Accrued interest	(1,891)	(3,447)
Accrued and deferred income taxes	7,262	8,117
Other working capital accounts	(105)	3,810
Other assets and deferred charges	(2,085)	(3,377)
Other	529	801
Payments made in settlement of self-insurance claims	(1,566)	(4,314)
NET CASH PROVIDED BY OPERATING ACTIVITIES	24,106	32,681
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment additions, net	(13,286)	(25,729)
NET CASH USED IN INVESTING ACTIVITIES	(13,286)	(25,729)
CASH FLOWS AND FINANCING ACTIVITIES:		
Reduction of long-term debt	(10,148)	(6,830)
Issuance of common stock	380	606
NET CASH USED IN FINANCING ACTIVITIES	(9,768)	(6,224)
INCREASE IN CASH AND CASH EQUIVALENTS	1,052	728
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	780	34
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,832	$ 762
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 3,505	$ 8,095
Income taxes paid, net of refunds	$ 241	$ 782

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 payable on May 17, 1996 to shareholders of record as of May 6, 1996. All classes of common stock will participate 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 months ended March 31, 1996 and 1995 have been adjusted accordingly, to reflect the two for one stock split. The number of Class A, B, C and D shares outstanding as of April 30, 1996 and March 31, 1996 have also been adjusted to reflect the two for one stock split.

(3) UNUSUAL ITEMS

Included in net revenues for the three month periods ended March 31, 1996 and 1995 was $1.8 million and $3.8 million, respectively, of additional revenues received from special Medicaid reimbursements received by two of the Company's acute care facilities which participate in the Texas Medical Assistance Program. Upon meeting certain conditions of participation and serving a disproportionally high share of the state's low income patients, the hospitals became eligible and received additional reimbursement from the state's disproportionate share hospital fund. These programs are scheduled to terminate in August, 1996 and the Company cannot predict whether these programs will continue beyond the scheduled termination date.

(4) OTHER LIABILITIES

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

(5) COMMITMENT AND CONTINGENCIES

Under certain agreements, the Company has committed or guaranteed an aggregate of $22,000,000 related principally to the Company's self-insurance programs and as support for various debt instruments and loan guarantees.

(6) SUBSEQUENT EVENTS

Subsequent to the end of the 1996 first quarter, the Company executed a purchase agreement to acquire four behavioral health care hospitals located in Pennsylvania and seven contracts to manage behavioral health programs. This purchase transaction, which is subject to regulatory approval, is expected to be completed in June, 1996. The total purchase price for the acquisition of these hospitals and management contracts is $36.5 million in cash for the operations and the property, plant and equipment and up to an additional $5 million which is contingent upon the future operating performance of the acquired assets. In May of 1996, the Company advanced $36.5 million to the seller pursuant to a term note, which is secured by the stock of the subsidiaries to be acquired by the Company. The term note matures upon the earlier of the granting of regulatory approval and the closing of the purchase transaction, or October 31, 1996. Also in connection with this transaction, the Company entered into a $7 million loan agreement which is secured by the stock of the subsidiaries to be acquired by the Company. The $7 million note, the term of which may be extended upon closing of the above mentioned purchase transaction, is scheduled to mature upon the earlier of the granting of regulatory approval and the closing of the purchase transaction described above, or October 31, 1996.

In May, 1996 the Company completed the acquisition of Northwest Texas Healthcare System located in Amarillo, Texas for approximately $125 million in cash and additional amounts payable to the seller based upon performance of the facility for a seven year period after the closing. Northwest Texas Healthcare System consists of a 360 licensed bed full service acute care hospital and free standing behavioral health hospital, two urgent care clinics and other operations.

The funds used to finance the above mentioned transactions were borrowed under the Company's revolving credit facility.

INDEPENDENT AUDITORS' REPORT

The Board of Managers
Amarillo Hospital District
Amarillo, Texas

We have audited the accompanying balance sheet of Northwest Texas Healthcare System (the Hospital), an operation of the Amarillo Hospital District, as of September 30, 1995, and the related statements of revenue and expenses, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As discussed in the Summary of Significant Accounting Policies, the financial statements of the Hospital are intended to present the financial position and results of operations and cash flows of only that portion of the financial reporting entity of the Amarillo Hospital District that are attributable to the transactions of the Hospital.

In our opinion, the 1995 financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 1995, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in the Summary of Significant Accounting Policies, the Hospital changed its method of accounting for investment securities as of September 30, 1994 to adopt the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities.

CLIFTON, GUNDERSON & CO.

Amarillo, Texas
December 18, 1995

INDEPENDENT AUDITORS' REPORT

The Board of Managers
Amarillo Hospital District:

We have audited the accompanying balance sheet of Northwest Texas Healthcare System (the Hospital), an operation of the Amarillo Hospital District, as of September 30, 1994, and the related statements of revenue and expenses, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As discussed in the Summary of Significant Accounting Policies, the accompanying financial statements of the Hospital are intended to present the financial position and results of operations and cash flows of only that portion of the financial reporting entity of the Amarillo Hospital District that are attributable to the transactions of the Hospital.

In our opinion, the 1994 financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 1994, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in the Summary of Significant Accounting Policies, the Hospital changed its method of accounting for investment securities at September 30, 1994 to adopt the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities.

KPMG PEAT MARWICK LLP

Dallas, Texas
December 2, 1994

NORTHWEST TEXAS HEALTHCARE SYSTEM
BALANCE SHEETS
SEPTEMBER 30, 1994, SEPTEMBER 30, 1995 AND MARCH 31, 1996 (UNAUDITED)

	1994	1995	1996 (UNAUDITED)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 8,116,477	$ 15,971,821	$ 33,199,529
Assets whose use is limited--required for current liabilities	16,078,474	8,176,010	8,251,010
Investments, at fair value (aggregate cost of $28,073,978 in 1994 and $35,337,779 in 1995)	27,103,707	35,036,351	33,227,525
Patient accounts receivable, net of estimated uncollectibles of approximately $17,531,000 in 1994 and $19,091,000 in 1995	16,034,683	17,047,958	16,340,925
Taxes receivable, net of allowance for doubtful accounts of approximately $742,000 in 1994 and $746,000 in 1995	247,421	134,157	352,512
Other receivable	--	--	422,988
Inventory	3,109,371	3,277,629	3,353,885
Prepaid expenses	505,570	596,889	864,125
Other current assets	297,928	237,495	469,527
Total current assets	71,493,631	80,478,310	96,482,026
NONCURRENT ASSETS WHOSE USE IS LIMITED	5,386,551	5,735,708	4,132,109
PROPERTY AND EQUIPMENT, NET	67,848,270	67,252,717	65,175,589
TOTAL ASSETS	$144,728,452	$153,466,735	$165,789,724
LIABILITIES AND FUND BALANCES			
CURRENT LIABILITIES			
Current installments of long-term debt	$ 1,200,000	$ 1,250,000	$ 1,325,000
Current portion of capital lease obligations	94,398	48,228	50,065
Current portion of estimated self-insurance costs	1,735,320	1,541,248	1,541,248
Accounts payable	4,494,394	3,258,554	2,097,409
Accrued expenses	8,426,091	3,044,112	3,066,979
Deferred ad valorem tax revenue	--	--	4,090,597
Estimated third-party payor settlements	3,304,540	2,419,081	4,157,503
Total current liabilities	19,254,743	11,561,223	16,328,801
ESTIMATED SELF-INSURANCE COSTS, excluding current portion	1,029,750	626,536	591,536
LONG-TERM DEBT, excluding current installments	8,775,000	7,525,000	6,200,000
CAPITAL LEASE OBLIGATIONS, excluding current portion	73,729	30,694	5,194
Total liabilities	29,133,222	19,743,453	23,125,531
FUND BALANCES			
Fund balance--reserved for net unrealized losses on investments	(1,072,194)	(335,149)	(64,729)
Fund balance--unrestricted	116,667,424	134,058,431	142,728,922
Total fund balances	115,595,230	133,723,282	142,664,193
TOTAL LIABILITIES AND FUND BALANCES	$144,728,452	$153,466,735	$165,789,724

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

NORTHWEST TEXAS HEALTHCARE SYSTEM
STATEMENTS OF REVENUE AND EXPENSES
YEARS ENDED SEPTEMBER 30, 1994 AND 1995 AND
SIX MONTHS ENDED MARCH 31, 1995 AND 1996 (UNAUDITED)

	YEARS ENDED SEPTEMBER 30,		SIX MONTHS ENDED MARCH 31,	
	1994	1995	1995	1996
			(UNAUDITED)	(UNAUDITED)
REVENUE				
Net patient service revenue.......	$116,270,349	$120,526,146	$59,258,003	$58,965,891
Ad valorem tax revenue............	8,440,032	8,148,950	3,976,986	4,147,934
Other revenue.....................	6,347,587	7,323,087	3,484,741	3,163,798
Total revenue..................	131,057,968	135,998,183	66,719,730	66,277,623
EXPENSES				
Wages, salaries and benefits......	62,955,952	60,927,158	31,057,634	29,505,047
Supplies and other................	29,841,638	31,901,499	15,518,621	15,966,026
Purchased services................	16,587,044	20,684,018	9,369,627	11,247,888
Professional malpractice costs....	471,648	132,786	4,409	13,132
Depreciation and amortization.....	7,223,586	8,664,553	4,323,802	4,241,609
Interest..........................	85,550	532,042	253,803	222,733
Provision for bad debts...........	11,439,013	12,187,290	5,798,734	5,526,645
Total expenses.................	128,604,431	135,029,346	66,326,630	66,723,080
Income (loss) from operations...	2,453,537	968,837	393,100	(445,457)
NONOPERATING GAINS (LOSSES)				
Income on investments whose use is limited under indenture agreement.......................	227,788	267,824	135,638	147,347
Other investment income...........	2,840,242	3,272,077	1,464,773	1,860,104
Gain (loss) on disposal of equipment.......................	(38,105)	15,094	12,501	(81,707)
Donations to school of pharmacy...	(4,000,000)	(155,683)	(155,683)	-
Medicaid disproportionate share program.........................	12,194,289	12,771,681	6,562,895	6,898,502
Nonoperating gains, net.......	11,224,214	16,170,993	8,020,124	8,824,246
REVENUE AND GAINS IN EXCESS OF EXPENSES AND LOSSES..............	$ 13,677,751	$ 17,139,830	$ 8,413,224	$ 8,378,789

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

NORTHWEST TEXAS HEALTHCARE SYSTEM
STATEMENTS OF CHANGES IN FUND BALANCES
YEARS ENDED SEPTEMBER 30, 1994 AND 1995 AND
SIX MONTHS ENDED MARCH 31, 1996 (UNAUDITED)

	YEAR ENDED SEPTEMBER 30, 1994		YEAR ENDED SEPTEMBER 30, 1995		SIX MONTHS ENDED MARCH 31, 1996 (UNAUDITED)	
	UNRESTRICTED	UNREALIZED LOSSES	UNRESTRICTED	UNREALIZED LOSSES	UNRESTRICTED	UNREALIZED LOSSES
BALANCE, BEGINNING OF PERIOD.............	$102,947,085	$ --	$116,667,424	$(1,072,194)	$134,058,431	$ (335,149)
Revenue and gains in excess of expenses and losses...........	13,677,751	--	17,139,830	--	8,378,789	--
Change in unrealized gains (losses) on investments......	--	(1,072,194)	--	737,045	--	270,420
Other..............	42,588	--	251,177	--	291,702	--
BALANCE, END OF PERIOD......	$116,667,424	$(1,072,194)	$134,058,431	$ (335,149)	$142,728,922	$ (64,729)

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

NORTHWEST TEXAS HEALTHCARE SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 1994 AND 1995 AND
SIX MONTHS ENDED MARCH 31, 1995 AND 1996 (UNAUDITED)

	YEARS ENDED SEPTEMBER 30,		SIX MONTHS ENDED MARCH 31,	
	1994	1995	1995 (UNAUDITED)	1996 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES AND GAINS AND LOSSES				
Revenue and gains in excess of expenses and losses	$ 13,677,751	$ 17,139,830	$ 8,413,224	$ 8,378,789
Adjustments to reconcile revenue and gains in excess of expenses and losses to net cash provided by operating activities and gains and losses:				
Provision for bad debts	11,439,013	12,187,290	5,798,734	5,526,645
Depreciation and amortization	7,223,586	8,664,553	4,323,802	4,241,609
(Gain) loss on disposal of assets	38,105	(15,094)	(12,509)	79,082
Loss on sale of investments	88,659	17,578	--	--
Decrease (increase) in:				
Patient accounts receivable	(12,850,787)	(13,196,232)	(7,824,701)	(4,819,612)
Taxes receivable	80,766	108,931	(262,446)	(218,355)
Other receivable	--	--	--	(422,988)
Inventory of supplies	(247,722)	(168,258)	(255,712)	(76,256)
Prepaid expenses	127,474	(91,319)	(332,797)	(267,236)
Other current assets	(144,533)	60,433	13,416	(232,032)
Assets whose use is limited	(9,609)	33,049	(91,891)	(50,674)
Increase (decrease) in:				
Accounts payable	(416,778)	(1,235,840)	(1,044,454)	(1,161,145)
Accrued expenses	2,246,948	(5,374,383)	(5,454,726)	29,159
Estimated third-party payor settlements	(2,334,422)	(885,459)	685,364	1,738,422
Estimated self-insurance costs	1,825,070	(597,286)	(65,000)	(35,000)
Deferred ad valorem tax revenue	--	--	3,916,432	4,090,597
Net cash provided by operating activities and gains and losses	20,743,521	16,647,793	7,806,736	16,801,005
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash received from (invested in) assets whose use is limited	(628,416)	(459,206)	6,971,711	1,579,273
Proceeds from sale of investments	910,091	2,976,797	--	4,013,172
Purchases of investments	(20,533,960)	(12,133,675)	(6,284,979)	(10,746,218)
Maturities of investments	18,557,386	9,923,165	4,167,298	8,812,292
Net cash provided (used) by investing activities	(1,694,899)	307,081	4,854,030	3,658,519
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of property and equipment	(22,951,830)	(7,878,850)	(5,785,862)	(1,962,189)
Proceeds from sale of equipment	--	76,121	7,000	10,328
Repayment of long-term debt	(1,128,513)	(1,200,000)	(1,217,484)	(1,250,000)
Payments on capital lease obligations	(80,127)	(89,205)	(51,257)	(23,663)
Interest paid on long-term debt and capital lease obligations	(641,877)	(506,227)	(261,825)	(229,025)
Interest capitalized on construction projects	554,025	17,171	--	--
Interest expense on long-term debt and capital lease obligations	87,852	481,460	253,803	222,733
Net cash used in capital and related financing activities	(24,160,470)	(9,099,530)	(7,055,625)	(3,231,816)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,111,848)	7,855,344	5,605,141	17,227,708
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	13,228,325	8,116,477	8,116,477	15,971,821
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 8,116,477	$ 15,971,821	$13,721,618	$ 33,199,529

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

NORTHWEST TEXAS HEALTHCARE SYSTEM
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
YEARS ENDED SEPTEMBER 30, 1994 AND 1995
AND SIX MONTHS ENDED MARCH 31, 1995 AND 1996 (UNAUDITED)

A. FINANCIAL REPORTING ENTITY

Northwest Texas Healthcare System (the Hospital) is operated by the Amarillo Hospital District (the District) a political subdivision of the State of Texas. The District is a component unit of the City of Amarillo and the City Commission of the City of Amarillo appoints the District's Board of Managers and approves the ad valorem tax rate and annual operating budget. The accompanying financial statements of the Hospital are intended to present the financial position and results of operations and cash flows of only that portion of the financial reporting entity of the District that are attributable to the transactions of the Hospital.

HOSPITAL OPERATIONS

The Hospital operates general and emergency health care facilities, an outpatient indigent clinic, outpatient community service clinics, a psychiatric and behavioral hospital, and ambulance services in Amarillo, Texas. It also serves as a teaching hospital for the Texas Tech University Health Sciences Center.

B. BASIS OF PRESENTATION

ANNUAL FINANCIAL STATEMENTS

The annual financial statements are prepared in accordance with the American Institute of Certified Public Accountant's Audit and Accounting Guide, Audits of Providers of Health Care Services, and all applicable Governmental Accounting Standards Board and Financial Accounting Standards Board pronouncements.

CONDENSED INTERIM FINANCIAL STATEMENTS

The unaudited condensed interim financial statements included herein were prepared from the books of the Hospital in accordance with generally accepted accounting principles and reflect all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary to a fair statement of the results of operations and financial position for the interim periods. The current interim period reported herein is not necessarily an indication of the expected results for the fiscal year.

C. BASIS OF ACCOUNTING

Transactions deemed by management to be ongoing, major or central to providing health care services are reported as revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

NET PATIENT SERVICE REVENUE

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under

C. BASIS OF ACCOUNTING--(CONTINUED)

reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The majority of the Hospital's activities are with patients who reside within Amarillo and the Texas Panhandle area. As of September 30, 1995 and 1994, the Hospital's net patient receivable for services rendered was approximately $17,000,000 and $16,000,000, respectively. The Hospital routinely requests payment at the time the services are rendered, but does not refuse services to anyone based upon inability to pay. The Hospital generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignments of patients' benefits payable from commercial health insurance carriers and other third-party payors. Possible credit losses arising from the Hospital's operations are provided for in the allowance for estimated uncollectibles.

CHARITY CARE

The primary purpose for the establishment of the District is to own and operate a hospital or hospital system for indigent and needy persons within the District. In this regard, the Hospital provides care to patients who meet certain criteria under its charity care policies without charge or at amounts significantly less than its established rates. The Hospital does not pursue collection of amounts determined to qualify as charity care; accordingly, such amounts are not reported as revenue.

AD VALOREM TAXES

The Hospital received approximately 6.4% and 5.9% of its total revenue from ad valorem taxes in 1994 and 1995, respectively, of which approximately 79% was used to support operations and the remaining 21% was used for debt service. The District's ad valorem tax rate was 19.04 and 18.34 cents per $100 valuation in 1994 and 1995, respectively. Ad valorem taxes are levied on October 1 of each year and are delinquent if not paid by January 31 of the following year; accordingly, ad valorem taxes are recorded at October 1 as deferred revenue and revenue is recognized for interim financial statement purposes ratably throughout the fiscal year.

ESTIMATED SELF-INSURANCE COSTS

The Hospital self-insures for claims arising from professional malpractice, health benefits for employees and eligible dependents and workers' compensation benefits. The provisions for estimated self-insurance costs include estimates of the ultimate costs for both reported claims and claims incurred but not reported. The provisions for professional malpractice are reported in professional malpractice costs and the provisions for health benefits and workers' compensation are reported in wages, salaries and benefits expense in the accompanying statements of revenue and expenses.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include investments in highly liquid debt and equity instruments purchased with an initial maturity of three months or less. For purposes of the statements of cash flows,

C. BASIS OF ACCOUNTING--(CONTINUED)

cash and cash equivalents exclude amounts whose use is limited by board designation or other arrangements under trust agreements.

ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include (1) assets designated by the Board for employee benefits, workers' compensation benefits, malpractice funding arrangements, commitments to fund health care related projects and future capital improvements over which the Board retains control and may, at its discretion, use for other purposes and (2) assets held by trustees under indenture agreements. Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets.

INVESTMENTS AND INVESTMENT INCOME

The Hospital adopted the provisions of Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (FAS 115) as of September 30, 1994. The Hospital's investment strategy is oriented toward maximizing yield rather than to retain investments to maturity. As a result, the Hospital classified its investment portfolio as available-for-sale. Also, excluding assets whose use is limited, investments have been classified as current assets in the accompanying financial statements.

Donated investment securities are recorded at fair value at the date of receipt, which is then treated as cost. A decline in the market value of any investment below cost that is deemed to be other than temporary is charged to earnings resulting in the establishment of a new cost basis.

Investment securities available-for-sale are reported at fair value. Unrealized holding gains and losses on available-for-sale securities (including those classified as current assets) are excluded from earnings and reported as a net amount in a separate component of fund balance until realized. Interest income, including amortization of the premium and discount arising at acquisition, is recognized when earned. Realized gains or losses are included in earnings. The specific identification method of determining cost is used to calculate realized gain or loss. Investment income, including gains and losses, is reported as nonoperating gains in the accompanying statements of revenue and expenses.

The Hospital invests available funds in accordance with the Public Funds Investment Act of 1987, as amended. Investment securities are held by the trust departments of Boatmen's First National Bank of Amarillo, Amarillo National Bank and First Bank Southwest in the trustees' names. Accordingly, investment securities are classified in risk category 3 under criteria established by the GASB for both years.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Property and equipment donated for Hospital operations are recorded at fair value at date of receipt.

Depreciation is provided on the straight-line method over the estimated useful lives of the properties. Equipment under capital leases is amortized on the straight-line method over the lesser of

C. BASIS OF ACCOUNTING--(CONTINUED)
the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the accompanying financial statements.

INTEREST CAPITALIZATION

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

INCOME TAXES

The District, as a political subdivision of the State of Texas, is exempt from federal taxation. Additionally, the Internal Revenue Service has noted that the Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

NOTE 1--NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

. Medicare. Inpatient acute medical and surgical care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient psychiatric and behavioral health care services, certain outpatient services, and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. Certain other services are paid on fee screen and ambulatory service center rates. Defined capital costs, previously paid based on a cost reimbursement methodology, are now paid prospectively. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 1993. However, the 1990 cost report has been reopened during fiscal 1995 to include additional Medicaid days in the disproportionate share computation.

. Medicaid. Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicaid fiscal intermediary. The Hospital has received notice of program reimbursement based on desk reviews of cost reports filed through September 30, 1990.

. Other. The Hospital has also entered into reimbursement agreements with certain insurance carriers, including Blue Cross, health maintenance organizations, and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

A summary of gross and net patient service revenue for the years ended September 30, 1994 and 1995 follows:

	1994	1995
Gross patient service revenue	$166,877,358	$185,499,440
Contractual adjustments under third-party reimbursement programs and policy discounts	(50,607,009)	(64,973,294)
NET PATIENT SERVICE REVENUE	$116,270,349	$120,526,146

NOTE 2--CHARITY CARE AND MEDICAID DISPROPORTIONATE SHARE FUNDING

The primary purpose for the establishment of the District is to own and operate a hospital or hospital system for indigent and needy persons within the District. In striving to achieve its primary purpose, the Hospital provides a significant level of charity care services, educational programs and other activities designed to further promote the health status of the community. Due to escalating costs, the Hospital continually explores more cost-effective methods of service delivery.

The Hospital has developed a community-oriented primary care system of comprehensive health care services for the community. The Hospital focuses particular attention on a definable group of people in need of improved access to the delivery system, regardless of ability to pay.

The Hospital provides care for all patients seeking services, regardless of their ability to pay. Many of these patients are qualified as financially or medically indigent according to guidelines established by the Hospital. Hospital personnel conduct eligibility screening on persons presenting for services who are unable to pay for such services. The following information illustrates the total estimated cost of these services for the years ended September 30, 1994 and 1995:

	1994	1995
Estimated in-house cost incurred to provide charity care services	$17,233,800	$17,148,800
Plus: professional fees for Qualified Indigent Care paid by the Hospital	2,963,400	3,548,500
TOTAL ESTIMATED COST TO PROVIDE CHARITY CARE SERVICES	$20,197,200	$20,697,300

The costs of these services are offset by Medicare and Medicaid Disproportionate Share Programs, ad valorem taxes and state and federal grant funds.

The Indigent Health Care and Treatment Act, passed by the 69th Texas Legislature in 1985, first apportioned funds to the Texas Department of Human Services to provide assistance to hospitals providing a disproportionate share of inpatient indigent health care. In 1991, the State of Texas created a mechanism whereby a tax on a selected hospital provider group would be used to generate additional federal matching funds. Hospitals participating in the Texas Medical Assistance (Medicaid) program that meet the conditions of participation and that serve a disproportionate share of low-income patients are eligible for additional reimbursement from the disproportionate share hospital fund. State law is the basis for identifying eligible hospitals and for distribution of disproportionate share funds. State and federal law offer considerable flexibility to recipient hospitals regarding specific use of the funds. However, there are direct and implied expectations regarding the use of these funds. The intended focus is to benefit the health care needs of the medically and financially indigent. The Hospital received approximately $12,194,000 and $12,772,000 in the years ended September 30, 1994 and 1995, respectively, under the State's Disproportionate Share program that became effective September 1, 1993.

NOTE 3--DEPOSITS WITH FINANCIAL INSTITUTIONS

The Hospital's cash deposits are insured up to $100,000 by the FDIC and the excess is secured by pledged securities held by the applicable financial institution. Cash deposits in excess of $100,000,

NOTE 3--DEPOSITS WITH FINANCIAL INSTITUTIONS--(CONTINUED)

although secured by pledged securities, are classified as risk category 3 under criteria established by the GASB (the pledged securities are held by the financial institution and are not in the Hospital's name). Cash equivalents at September 30, 1994 and 1995 consist primarily of investments in short-term money market funds classified as risk category 2. The carrying amount of cash deposits and bank balances for the years ended September 30, 1994 and 1995 follow:

	1994	1995
Carrying amount of cash deposits	$ 95,145	$ 151,873
Bank Balances	302,127	1,560,205

NOTE 4--INVESTMENTS

Amortized cost, gross unrealized holding gains and losses, and fair value (which is carrying value) of investments at September 30, 1994 are as follow:

	AMORTIZED COST	GROSS UNREALIZED HOLDING GAINS	GROSS UNREALIZED HOLDING LOSSES	FAIR VALUE
Short-term investments	$ 1,580,148	$ --	$ --	$ 1,580,148
US Government mortgage-backed	6,132,236	29,462	395,286	5,766,412
Other US Government	40,791,366	41,754	732,910	40,100,210
Corporate debt	500,524	--	15,214	485,310
Accrued interest	577,045	--	--	577,045
	49,581,319	71,216	1,143,410	48,509,125
Less limited use assets				
Board designated	(16,742,303)	--	--	(16,742,303)
Indenture agreement	(4,765,038)	--	(101,923)	(4,663,115)
	$ 28,073,978	$71,216	$1,041,487	$ 27,103,707

Investment maturities at September 30, 1994 follow:

	AMORTIZED COST	FAIR VALUE (CARRYING VALUE)
Due in 1 year	$ 10,435,812	$ 10,401,989
Due in 1 to 5 years	31,694,687	31,098,054
Due in 5 to 10 years	741,539	665,625
US Government mortgage-backed	6,132,236	5,766,412
Accrued interest	577,045	577,045
	49,581,319	48,509,125
Less limited use assets	(21,507,341)	(21,405,418)
	$ 28,073,978	$ 27,103,707

NOTE 4--INVESTMENTS--(CONTINUED)

Amortized cost, gross unrealized holding gains and losses and fair value (which is carrying value) of investments at September 30, 1995 follow:

	AMORTIZED COST	GROSS UNREALIZED HOLDING GAINS	GROSS UNREALIZED HOLDING LOSSES	FAIR VALUE
Short-term investments	$ 1,850,042	$ --	$ --	$ 1,850,042
US Government mortgage-backed	7,270,403	49,139	151,677	7,167,865
Other US Government	38,874,267	201,567	432,902	38,642,932
Corporate debt	500,336	--	1,276	499,060
Accrued interest	755,297	--	--	755,297
	49,250,345	250,706	585,855	48,915,196
Less limited use assets:				
Board designated	(8,891,311)	--	--	(8,891,311)
Indenture agreement	(5,021,255)	(950)	(34,671)	(4,987,534)
	$35,337,779	$249,756	$551,184	$35,036,351

Investment maturities at September 30, 1995 follow:

	AMORTIZED COST	FAIR VALUE (CARRYING VALUE)
Due in 1 year	$ 17,316,428	$ 17,142,166
Due in 1 to 5 years	18,745,033	18,859,110
Due in 5 to 10 years	1,742,501	1,563,398
US Government mortgage-backed	10,691,086	10,595,225
Accrued interest	755,297	755,297
	49,250,345	48,915,196
Less limited use assets	(13,912,566)	(13,878,845)
	$ 35,337,779	$ 35,036,351

NOTE 5--ASSETS WHOSE USE IS LIMITED

At September 30, 1994 and 1995, investments were recorded at fair value. At September 30, 1994 and 1995, assets whose use is limited follow:

	1994	1995
Under indenture agreements to meet interest and sinking fund requirements:		
Investments	$ 4,663,115	$4,987,534
Other receivable	59,607	32,873
Investments designated by Board for:		
Employee benefits	3,500,000	3,500,000
Workers' compensation benefits	1,000,000	1,000,000
Malpractice funding arrangements	1,000,000	1,000,000
Donation to school of pharmacy	4,000,000	--
Capital improvements	7,242,303	3,391,311
Total assets whose use is limited	21,465,025	13,911,718
Less assets whose use is limited and required for current liabilities	(16,078,474)	(8,176,010)
ASSETS WHOSE USE IS LIMITED--NONCURRENT	$ 5,386,551	$5,735,708

NOTE 6--PROPERTY AND EQUIPMENT

A summary of property and equipment as of September 30, 1994 and 1995 follows:

	1994	1995
Land	$ 1,418,949	$ 1,418,949
Land improvements	1,234,862	1,258,743
Buildings and improvements	57,181,784	62,336,803
Equipment	45,643,749	52,760,799
Construction in progress	6,929,104	1,118,142
	112,408,448	118,893,436
Less accumulated depreciation and amortization	(44,560,178)	(51,640,719)
TOTAL PROPERTY AND EQUIPMENT	$67,848,270	$67,252,717

NOTE 7--LONG-TERM DEBT

A summary of long-term debt as of September 30, 1994 and 1995 follows:

	1994	1995
General obligation bonds 1977 Series, interest payable semi-annually at fixed rates ranging from 4.60% to 5.40%, maturing serially through March 1, 2001	$9,850,000	$8,700,000
General obligation bonds 1980 Series, interest payable semi-annually at fixed rates ranging from 7.0 % to 7.40%, maturing serially through March 1, 1997	125,000	75,000
Total long-term debt	9,975,000	8,775,000
Less current installments of long-term debt	(1,200,000)	(1,250,000)
LONG-TERM DEBT, EXCLUDING CURRENT INSTALLMENTS	$8,775,000	$7,525,000

The general obligation bonds were authorized by elections held December 7, 1976. The bonds represent direct and general obligations of the Hospital, payable from ad valorem taxes levied against all taxable property located within the taxing district. The Hospital can redeem the 1977 and 1980 Series bonds, in whole or in part, at par plus accrued interest on any interest payment date.

Scheduled principal payments on long-term debt are as follows: 1996, $1,250,000; 1997, $1,325,000; 1998, $1,400,000; 1999, $1,500,000; 2000, $1,600,000 and thereafter, $1,700,000.

Interest costs capitalized in 1994 and 1995 were approximately $554,000 and $17,000, respectively.

NOTE 8--CAPITAL LEASE OBLIGATIONS

The Hospital is obligated under one capital lease for equipment. The cost of equipment recorded under such leases was $223,919, net of accumulated amortization of $151,947, as of September 30, 1995. The present value of future minimum lease payments as of September 30, 1995 follows:

YEARS ENDING SEPTEMBER 30:	
1996	$55,062
1997	28,315
Total minimum lease payments	83,377
Less amount representing interest (at a rate of 7.5%)	(4,455)
Present value of minimum lease payments	78,922
Less current portion of capital lease obligation	(48,228)
CAPITAL LEASE OBLIGATION, EXCLUDING CURRENT PORTION	$30,694

NOTE 9--MANAGEMENT INCENTIVE COMPENSATION PLAN

Through fiscal year 1994, the Hospital's salary and wage scale for selected upper management personnel included two components of pay: (1) a base salary to be paid bi-weekly and (2) an at-risk

NOTE 9--MANAGEMENT INCENTIVE COMPENSATION PLAN--(CONTINUED)

amount paid through the Management Incentive Compensation Plan (MICP). Employees participating in the MICP were those determined to have a significant bearing on the successful operations of the Hospital. The amounts paid under the MICP (the at-risk amount) were based upon achievement of performance-based goals and objectives. Incentive performance levels, approved by the Board of Managers, were established and communicated to participants prior to the beginning of each fiscal year. Costs recognized in 1994 in connection with the MICP were approximately $623,000. The liability for incentive awards was included in accrued expenses in the accompanying 1994 balance sheet. The MICP was discontinued beginning with fiscal year 1995.

NOTE 10--PUBLIC EMPLOYEE RETIREMENT SYSTEM

PLAN DESCRIPTION

In 1995, the Board approved resolutions to amend the Retirement Plan and Trust for Employees of Amarillo Hospital District effective October 1, 1994 which changed the name of the Plan to the "Retirement Plan for Employees of Northwest Texas Healthcare System."

Substantially all full-time employees of the Hospital are eligible for participation in the Plan, a single-employer, defined benefit retirement plan. The Plan provides early, normal (age 65), and late retirement benefits based on the employee's years of service, average compensation, and social security benefits at retirement or termination of service. In addition, the Plan provides vested benefits after five years of service and preretirement death and disability benefits. Employees are not permitted to make contributions to the Plan. The Plan is administered by the Board of Managers of the District. The Plan is a component unit (presented as a Fiduciary Fund) of the District's financial reporting entity and its operations are not reported in these financial statements. Complete financial statements for the Plan may be obtained at the Hospital's administrative offices at 1501 Coulter, Amarillo, Texas 79106. At October 1, 1994 and 1995, the valuation dates, Plan membership consisted of the following:

	1994	1995
Retirees and beneficiaries currently receiving benefits and terminated vested participants	248	289
Active employees:		
Fully vested	605	597
Nonvested	564	579
TOTAL	1,417	1,465

Full-time employees are eligible for participation in the Plan after completing one year of service and upon attainment of age 25. Participants vest 100% upon completion of five years of service. Vested participants are entitled to monthly benefits beginning at the normal retirement age of 65 equal to a percentage of compensation earned. Reduced benefits are available upon early retirement with 20 years of service or at age 55 with ten or more years of participation. Benefits are generally payable in monthly installments, lump sum distribution or a combination thereof.

NOTE 10--PUBLIC EMPLOYEE RETIREMENT SYSTEM--(CONTINUED)

Pension provisions include death and disability benefits whereby a vested disabled employee or surviving spouse of a vested employee is entitled to receive monthly benefits (on a ten years certain and life thereafter basis) derived from the greater of (a) the present value amount of the participant's deferred monthly retirement income commencing at normal retirement date as defined in the Plan accrued to the date of death or (b) an amount equal to 24 times the monthly salary on the date of death. Participants who become totally disabled receive monthly disability benefits equal to 50% of monthly salary reduced by 64% of the monthly disability benefit received from Social Security. Disability benefits are paid until normal retirement age, at which time disabled participants begin receiving normal retirement benefits computed as though they had been employed to normal retirement age with their monthly compensation remaining the same as at the time they became disabled.

The pension benefit obligation shown below is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and plan step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the Plan on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the Plan.

Actuarial valuations were performed as of October 1, 1994 and 1995 to determine the pension benefit obligation and contribution requirements for the subsequent fiscal year. Significant actuarial assumptions used in the valuations include (a) a rate of return on the investment of present and future assets of 8% compounded annually and (b) projected salary increases of 5% compounded annually.

The unfunded pension benefit obligation applicable to covered employees as of October 1, 1994 and 1995 follow:

	1994	1995
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 6,669,829	$ 8,799,882
Current employees:		
Employer-financed--vested	11,206,082	8,708,252
Employer-financed--nonvested	3,582,081	5,862,522
Total pension benefit obligation	21,457,992	23,370,656
Net assets available for benefits, at market	(17,929,269)	(20,806,792)
UNFUNDED PENSION BENEFIT OBLIGATION	$ 3,528,723	$ 2,563,864

ACTUARIALLY DETERMINED CONTRIBUTION REQUIREMENTS AND CONTRIBUTION MADE

The Plan provides that all contributions are to be made by the Hospital. The Hospital intends, but is not required, to make annual contributions at least equal to the actuarially determined contribution requirements. Contributions attributable to normal cost and amortization of the unfunded actuarial

NOTE 10--PUBLIC EMPLOYEE RETIREMENT SYSTEM--(CONTINUED)
accrued liability are determined using the entry-age-normal cost method over a 20-year amortization period.

The contributions to the Plan for the years ended September 30, 1994 and 1995 were made in accordance with actuarially determined requirements computed in the actuarial valuations completed as of October 1, 1993 and January 1, 1994, respectively.

	1994	1995
Employer contributions:		
Normal cost	$ 1,330,503	$ 1,564,405
Amortization of unfunded actuarial accrued liability	819,085	693,123
Total contributions	$ 2,149,588	$ 2,257,528
Covered payroll	$37,323,623	$37,906,409
Employer contributions as a percentage of covered payroll	5.8%	6.0%
TOTAL PAYROLL, EXCLUDING HEALTH INSURANCE, PENSION COSTS AND OTHER EMPLOYEE BENEFITS	$51,589,000	$51,673,000

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation as described above.

THREE-YEAR HISTORICAL TREND INFORMATION

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Three-year trend information, for the years ended December 31, 1992 and September 30, 1994 and 1995 is presented as follows:

	1992	1994	1995
Net assets available for benefits as a percentage of the pension benefit obligation	73.2%	83.5%	89.0%
Unfunded pension benefit obligation as a percentage of annual covered payroll	16.8%	9.5%	6.8%
Contributions as a percentage of annual covered payroll	5.5%	5.8%	6.0%

Historical trend information is disclosed in the Plan's separately issued financial statements which provides information about progress made in accumulating sufficient assets to pay benefits when due.

PLAN INVESTMENTS

The composition of the Plan's investment portfolio is diversified among common trust funds, U.S. government and U.S. government-backed securities, corporate debt and corporate equity securities. Individual investments greater than 5% of net assets available for pension benefits as of September 30, 1995 follow:

U.S. Treasury Note	$2,798,435
Collective Employee Benefits Trust Fund J	2,793,216

NOTE 11--AFFILIATION WITH OTHER PARTIES

The Hospital is a participant with St. Anthony's Hospital (a not-for-profit organization) in an affiliation to operate Alliance Regional Health Plans, Inc. (Alliance). Alliance, a not-for-profit corporation, was created for the purpose of providing health care services in a cost-effective manner to community residents and employers. Alliance is governed by a twelve-member board composed of four appointees from the District and four appointees from St. Anthony's Hospital. These appointees appoint the other four board members from the community at large. Neither participant has an equity interest in Alliance. Complete financial statements for Alliance can be obtained at the administrative offices at 1500 Coulter, Suite 5, Amarillo, Texas 79106. (See also Note 13 for subsequent event.)

NOTE 12--COMMITMENTS AND CONTINGENCIES

SELF INSURANCE ARRANGEMENTS

The Hospital is involved in litigation arising out of the ordinary course of business. Claims alleging malpractice have been asserted against the Hospital and are currently in various stages of litigation. The Hospital may be liable for settlement of claims up to a limit of $100,000 per person in accordance with the limited liability provisions of the Texas Tort Claims Act.

The Hospital self-insures for claims arising from professional malpractice and maintains board-designated assets to provide for such losses.

The Hospital self-insures health benefits for employees and eligible dependents and maintains board-designated assets to provide for such losses. Additionally, the Hospital has stop-loss reinsurance that limits the Hospital's liability to approximately $9,115,000 in aggregate per year and $250,000 per individual per year.

The Hospital provides self-funded workers' compensation benefits for any employee injured or disabled on the job and maintains board-designated assets to provide for such losses. Excess indemnity insurance purchased from an independent third-party insurer limits the Hospital's liability to $500,000 per occurrence. The Hospital used a third-party to administer workers' compensation claims until September 30, 1993. On October 1, 1993, the Hospital began administering workers' compensation claims internally.

It is the opinion of management that estimated self-insurance costs, including known claims and reserves for incurred but not reported claims, are adequate to provide for potential claims.

PROPOSED SALE OF HOSPITAL

On September 26, 1995, the Board of Managers of the District (the Board) signed a nonbinding letter of intent to sell the Hospital to Universal Health Services, Inc. (UHS), a hospital management company based in King of Prussia, Pennsylvania. The transaction was contingent upon completion of due diligence procedures, negotiation of specific terms and approval by the Board and by the Amarillo City Commission, UHS's board of directors and various regulatory agencies. (See Note 13 below.)

NOTE 13--SUBSEQUENT EVENTS (UNAUDITED)

During April 1996, St. Anthony's Hospital's interest in Alliance was terminated.

On May 7, 1996, the sale of the Hospital to UHS was completed.

NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFER CONTAINED HEREIN, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY OF THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES OTHER THAN THOSE TO WHICH IT RELATES OR AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, THOSE TO WHICH IT RELATES, IN ANY JURISDICTION WHERE, OR TO ANY PERSON TO WHOM, IT IS NOT LAWFUL. THE DELIVERY OF THIS PROSPECTUS AT ANY TIME DOES NOT IMPLY THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE.

TABLE OF CONTENTS

4,400,000 SHARES

[UHS LOGO]

UNIVERSAL HEALTH SERVICES, INC.

CLASS B COMMON STOCK

PROSPECTUS

, 1996

SMITH BARNEY INC.
BEAR, STEARNS & CO. INC.
DILLON, READ & CO. INC.
DONALDSON, LUFKIN & JENRETTE SECURITIES CORPORATION
J.P. MORGAN & CO.

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following is an itemized statement of all estimated amounts of all expenses payable by the Registrant in connection with the registration of the Class B Common Stock offered hereby, other than the underwriting discounts and commissions:

Registration Fee--Securities and Exchange Commission..........	$ 48,855.17
Registration Fee--National Association of Securities Dealers, Inc..	$ 14,669.00
Listing Fee--New York Stock Exchange..........................	$ 47,800.00
Blue Sky fees and expenses....................................	$ 15,000.00*
Accountants' fees and expenses................................	$125,000.00*
Legal fees and expenses.......................................	$ 75,000.00*
Printing and engraving expenses...............................	$ 50,000.00
Miscellaneous...	$ 13,675.83
Total...	$390,000.00

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* Estimated

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 145 of the General Corporation Law of Delaware permits indemnification of directors, officers and employees of a corporation under certain conditions and subject to certain limitations. Section 7 of the By-Laws of the Company contains provisions for the indemnification of directors and officers of the Company.

ITEM 16. EXHIBITS.

1	--Form of Underwriting Agreement.
5	--Opinion of Fulbright & Jaworski L.L.P.*
23.1	--Consent of Arthur Andersen LLP*
23.2	--Consent of Ernst & Young L.L.P.
23.3	--Consent of Clifton, Gunderson & Co.*
23.4	--Consent of KPMG Peat Marwick LLP*
23.5	--Consent of Fulbright & Jaworski L.L.P. (included in Exhibit 5.)
24	--Power of Attorney (included on signature page).

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* Previously filed.

ITEM 17. UNDERTAKINGS.

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment of this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement of any material change to such information in the registration statement;

Provided, however, that paragraphs (1)(i) and (1)(ii) do not apply if the registration statement is on Form S-3 or Form S-8 and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(d) The undersigned hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of King of Prussia, Commonwealth of Pennsylvania, on May 30, 1996.

UNIVERSAL HEALTH SERVICES, INC.

By: /s/ ALAN B. MILLER
....
Alan B. Miller
Chairman of the Board, President
& Chief Executive Officer

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, AS AMENDED, THIS REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURE	TITLE	DATE
* .... Alan B. Miller	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	May 30, 1996
* .... John H. Herrell	Director	May 30, 1996
* .... Robert H. Hotz	Director	May 30, 1996
* .... Martin Myerson	Director	May 30, 1996
* .... Sidney Miller	Director	May 30, 1996
* .... Anthony Pantaleoni	Director	May 30, 1996
* .... Paul Verkuil	Director	May 30, 1996
/s/ KIRK E. GORMAN .... Kirk E. Gorman	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	May 30, 1996
/s/ STEVE G. FILTON .... Steve G. Filton	Vice President and Controller (Principal Accounting Officer)	May 30, 1996

*By Kirk E. Gorman as Attorney-in-Fact

/s/ KIRK E. GORMAN .... Kirk E. Gorman	May 30, 1996

EXHIBIT INDEX

Exhibit 1

Draft of May 30, 1996

4,400,000 Shares

UNIVERSAL HEALTH SERVICES, INC.

Common Stock

UNDERWRITING AGREEMENT

, 1996

SMITH BARNEY INC.
BEAR, STEARNS & CO.
DILLON, READ & CO. INC.
DONALDSON, LUFKIN & JENRETTE
SECURITIES CORPORATION
J.P. MORGAN & CO.
As Representatives of the Several Underwriters
c/o SMITH BARNEY INC.
388 Greenwich Street
New York, New York 10013

Dear Sirs:

Universal Health Services, Inc., a Delaware corporation (the "Company"), proposes to issue and sell an aggregate of 4,000,000 shares (the "Firm Shares") of its Class B common stock, par value $0.01 per share (the "Common Stock"), to the several Underwriters named in Schedule I hereto (the "Underwriters"), and Alan B. Miller (the "Selling Stockholder") proposes to sell an aggregate of 400,000 shares of Common Stock. In addition, solely for the purpose of covering over-allotments, the Company proposes to sell to the Underwriters, upon the terms and conditions set forth in Section 2 hereof, up to an additional 660,000 shares (the "Additional Shares") of Common Stock. The Firm Shares and the Additional Shares are hereinafter collectively referred to as the "Shares." The Company and the Selling Stockholders are hereinafter sometimes referred to as the "Sellers."

The Company and the Selling Stockholders wish to confirm as follows their agreement with you (the "Representatives") and the other several Underwriters on whose behalf you are acting, in connection with the several purchases of the Shares by the Underwriters.

1. Registration Statement and Prospectus. The Company has prepared and filed with the Securities and Exchange Commission (the "Commission") in accordance with the provisions of the Securities Act of 1933, as amended, and the rules and regulations of the Commission thereunder (collectively, the "Act"), a registration statement on Form S-3 under the Act (the "registration statement"), including a prospectus subject to completion, relating to the Shares. The term "Registration Statement" as used in this Agreement means the registration statement (including all financial schedules and exhibits) as amended at the time it becomes effective or, if the registration statement became effective prior to the execution of this Agreement, as supplemented or amended prior to the execution of this Agreement. If it is contemplated, at the time this Agreement is executed, that a post-effective amendment to the registration statement will be filed and must be declared effective before the offering of the Shares may commence, the term "Registration Statement" as used in this Agreement means the registration statement as amended by said post-effective amendment. If an abbreviated registration statement is prepared and filed with the Commission in accordance with Rule 462(b) under the Act (an "Abbreviated Registration Statement"), the term "Registration Statement" as used in this Agreement includes the Abbreviated Registration Statement. The term "Prospectus" as used in this Agreement means the prospectus in the form included in the Registration Statement, or, if the prospectus included in the Registration Statement omits information in reliance on Rule 430A under the Act and such information is included in a prospectus filed with the Commission pursuant to Rule 424(b) under the Act, the term "Prospectus" as used in this Agreement means the prospectus in the form included in the Registration Statement as supplemented by the addition of the Rule 430A information contained in the prospectus filed with the Commission pursuant to

Rule 424(b). The term "Prepricing Prospectus" as used in this Agreement means the prospectus subject to completion in the form included in the registration statement at the time of the initial filing of the registration statement with the Commission, and as such prospectus shall have been amended from time to time prior to the date of the Prospectus. Any reference herein to the registration statement, the Registration Statement, any Prepricing Prospectus or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Form S-3 under the Act, as of the date of the registration statement, the Registration Statement, such Prepricing Prospectus or the Prospectus, as the case may be, and any reference to any amendment or supplement to the registration statement, the Registration Statement, any Prepricing Prospectus or the Prospectus shall be deemed to refer to and include any documents filed after such date under the Securities Act of 1934, as amended, and the rules and regulations of the Commission thereunder (collectively, the "Exchange Act") and so incorporated by reference. As used herein, the term "Incorporated Documents" means the documents which at the time are incorporated by reference in the registration statement, the Registration Statement, any Prepricing Prospectus, the Prospectus or any amendment or supplement thereto.

2. Agreements to Sell and Purchase. Subject to such adjustments as you may determine in order to avoid fractional shares, the Company hereby agrees, subject to all the terms and conditions set forth herein, to issue and sell to each Underwriter and, upon the basis of the representations, warranties and agreements of the Sellers herein contained and subject to all the terms and conditions set forth herein, each Underwriter agrees, severally and not jointly, to purchase from the Company, at a purchase price of $ per share (the "purchase price per share"), the number of Firm Shares which bears the same proportion to the aggregate number of Firm Shares to be issued and sold by the Company as the number of Firm Shares set forth opposite the name of such Underwriter in Schedule I hereto (or such number of Firm Shares increased as set forth in Section 12 hereof) bears to the aggregate number of Firm Shares to be sold by the Sellers.

Subject to such adjustments as you may determine in order to avoid fractional shares, the Selling Shareholder agrees, subject to all the terms and conditions set forth herein, to sell to each Underwriter and, upon the basis of the representations, warranties and agreements of the

Sellers herein contained and subject to all the terms and conditions set forth herein, each Underwriter agrees to purchase from the Selling Shareholder at the purchase price per share that number of Firm Shares which bears the same proportion to the number of Firm Shares to be sold by the Selling Shareholder as the number of Firm Shares set forth opposite the name of such Underwriter in Schedule I hereto (or such number of Firm Shares increased as set forth in Section 12 hereof) bears to the aggregate number of Firm Shares to be sold by the Sellers.

The Company also agrees, subject to all the terms and conditions set forth herein, to sell to the Underwriters, and, upon the basis of the representations, warranties and agreements of the Company herein contained and subject to all the terms and conditions set forth herein, the Underwriters shall have the right to purchase from the Company, at the purchase price per share, pursuant to an option (the "over-allotment option") which may be exercised at any time and from time to time prior to 9:00 P.M., New York City time, on the 30th day after the date of the Prospectus (or, if such 30th day shall be a Saturday or Sunday or a holiday, on the next business day thereafter when the New York Stock Exchange is open for trading), up to an aggregate of 660,000 Additional Shares. The Additional Shares may be purchased solely to cover over-allotments, if any, incurred by the Underwriters in connection with the offer and sale of the Shares. Upon any exercise of the over-allotment option, each Underwriter, severally and not jointly, agrees to purchase from the Company the number of Additional Shares (subject to such adjustments as you may determine in order to avoid fractional shares) which bears the same proportion to the number of Additional Shares to be purchased by the Underwriters as the number of Firm Shares set forth opposite the name of such Underwriter in Schedule I hereto (or such number of Firm Shares increased as set forth in Section 12 hereof) bears to the aggregate number of Firm Shares.

Certificates in transferable form for the Shares that the Selling Stockholder agrees to sell pursuant to this Agreement have been placed in custody with ________________ (the "Custodian") for delivery under this Agreement pursuant to a Custody Agreement and Power of Attorney (the "Custody Agreement") executed by the Selling Stockholder appointing _________________________ as agents and attorneys-in-fact (the "Attorneys-in-Fact"). The Selling Stockholder agrees that (i) the Shares represented by the certificates held in custody pursuant to the Custody Agreement are subject to the interests of the Underwriters and the Company, (ii) the arrangements made by the Selling Stockholder for such custody are, except as specifically provided in the Custody Agreement, irrevocable and (iii) the obligations of the Selling Stockholder hereunder and under the Custody Agreement shall not be terminated by any act of the Selling Stockholder or by operation of law, whether by the death or incapacity of the Selling Stockholder or the occurrence of any other event. If the Selling Stockholder shall die or be incapacitated or if any other event shall occur before the delivery of the Shares hereunder, certificates for the Shares to be sold by such Selling Stockholder shall be delivered to the Underwriters by the Attorneys-in-Fact in accordance with the terms and conditions of this Agreement and the Custody Agreement as if such death or incapacity or other event had not occurred, regardless of whether or not the Attorneys-in-Fact or any Underwriter shall have received notice of such death, incapacity or other event. Each Attorney-in-Fact represents that he is authorized, on behalf of the Selling Stockholder, to execute this Agreement and any other documents necessary or desirable in connection with the Custody Agreement and the sale of the Shares to be sold hereunder by the Selling Stockholder, to make delivery of the certificates for such Shares, to receive the proceeds of the sale of such Shares, to give receipts for such proceeds, to pay therefrom any expenses to be borne by the Selling Stockholder in connection with the sale and public offering of such Shares, to distribute the balance thereof to the Selling Stockholder, and to take such other actions as may be necessary or desirable in connection with the transactions contemplated by this Agreement. Each Attorney-in-Fact agrees to perform his duties under the Custody Agreement.

3. Terms of Public Offering. The Company has been advised by you that the Underwriters propose to make a public offering of their respective portions of the Shares as soon after the Registration Statement and this Agreement have become effective as in your judgment is advisable and initially to offer the Shares upon the terms set forth in the Prospectus.

4. Delivery of the Shares and Payment Therefor. Delivery to the Underwriters of and payment for the Firm Shares shall be made at the office of Smith Barney Inc., 388 Greenwich Street, New York, New York 10013, at 10:00 A.M., New York City time, on   , 1996 (the "Closing Date"). The place of closing for the Firm Shares and the Closing Date may be varied by agreement between you and the Company.

Delivery to the Underwriters of and payment for any Additional Shares to be purchased by the Underwriters shall be made at the aforementioned office of Smith Barney Inc. at such time on such date (the "Option Closing Date"), which may be the same as the Closing Date but shall in no event be earlier than the Closing Date nor earlier than two nor later than ten business days after the giving of the notice hereinafter referred to, as shall be specified in a written notice from you on behalf of the Underwriters to the Company and the Attorneys-in-Fact of the Underwriters' determination to purchase a number, specified in such notice, of Additional Shares. The place of closing for any Additional Shares and the Option Closing Date for such Shares may be varied by agreement between you and the Company.

Certificates for the Firm Shares and for any Additional Shares to be purchased hereunder shall be registered in such names and in such denominations as you shall request by written notice, it being understood that a facsimile transmission shall be deemed written notice, prior to 9:30 A.M., New York City time, on the second business day preceding the Closing Date or any Option Closing Date, as the case may be. Such certificates shall be made available to you in New York City for inspection and packaging not later than 9:30 A.M., New York City time, on the business day next preceding the Closing Date or the Option Closing Date, as the case may be. The certificates evidencing the Firm Shares and any Additional Shares to be purchased hereunder shall be delivered to you on the Closing Date or the Option Closing Date, as the case may be, against payment of the purchase price therefor by certified or official bank check or checks payable in immediately available funds to the order of the Company.

5. Agreements of the Company. The Company agrees with the several Underwriters as follows:

(a) If, at the time this Agreement is executed and delivered, it is necessary for the registration statement or a post-effective amendment thereto or any Abbreviated Registration Statement to be declared effective before the offering of the Shares may commence, the Company will endeavor to cause the Registration Statement or such post-effective amendment to become effective as soon as possible and will advise you promptly and, if requested by you, will confirm such advice in writing, when the Registration Statement or such post-effective amendment has become effective.

(b) The Company will advise you promptly and, if requested by you, will confirm such advice in writing: (i) of any request by the Commission for amendment of or a supplement to the Registration Statement, any Prepricing Prospectus or the Prospectus or for additional information; (ii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of the suspension of qualification of the Shares for offering or sale in any jurisdiction or the initiation of any proceeding for such purpose; and (iii) within the period of time referred to in paragraph (f) below, of any change in the Company's condition (financial or other), business, prospects, properties, net worth or results of operations, or of the happening of any event, which makes any statement of a material fact made in the Registration Statement or the Prospectus (as then amended or supplemented) untrue or which requires the making of any additions to or changes in the Registration Statement or the Prospectus (as then amended or supplemented) in order to state a material fact required by the Act or the regulations thereunder to be stated therein or necessary in order to make the statements therein not misleading, or of the necessity to amend or supplement the Prospectus (as then amended or supplemented) to comply with the Act or any other law. If at any time the Commission shall issue any stop order suspending the effectiveness of the Registration Statement, the Company will make every reasonable effort to obtain the withdrawal of such order at the earliest possible time.

(c) The Company will furnish to you, without charge, six signed copies of the registration statement as originally filed with the Commission and of each amendment thereto, including financial statements and all exhibits to the registration statement and will also furnish to you, without charge, such number of conformed copies of the registration statement as originally filed and of each amendment thereto, but without exhibits, as you may request.

(d) The Company will not (i) file any amendment to the Registration Statement or make any amendment or supplement to the Prospectus of which you shall not previously have been advised or to which you shall object after being so advised or (ii) so long as, in the opinion of counsel for the Underwriters, a prospectus is required to be delivered in connection with sales by any Underwriter or dealer, file any information, documents or reports pursuant to the Exchange Act, without delivering a copy of such information, documents or reports to you, as Representatives of the Underwriters, prior to or concurrently with such filing.

(e) Prior to the execution and delivery of this Agreement, the Company has delivered or will deliver to you, without charge, in such quantities as you have requested or may hereafter request, copies of each form of the Prepricing Prospectus. The Company consents to the use, in accordance with the provisions of the Act and with the securities or Blue Sky laws of the jurisdictions in which the Shares are offered by the several Underwriters and by dealers, prior to the date of the Prospectus, of each Prepricing Prospectus so furnished by the Company.

(f) As soon after the execution and delivery of this Agreement as possible and thereafter from time to time for such period as in the opinion of counsel for the Underwriters a prospectus is required by the Act to be delivered in connection with sales by any Underwriter or dealer, the Company will expeditiously deliver to each Underwriter and each dealer, without charge, as many copies of the Prospectus (and of any amendment or supplement thereto) as you may request. The Company consents to the use of the Prospectus (and of any amendment or supplement thereto) in accordance with the provisions of the Act and with the securities or Blue Sky laws of the jurisdictions in which the Shares are offered by the several Underwriters and by all dealers to whom Shares may be sold, both in connection with the offering and sale of the Shares and for such period of time thereafter as the Prospectus is required by the Act to be delivered in connection with sales by any Underwriter or dealer. If during such period of time any event shall occur that in the judgment of the Company or in the opinion of counsel for the Underwriters is required to be set forth in the Prospectus (as then amended or supplemented) or should be set forth therein in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary to supplement or amend the Prospectus to comply with the Act or any other law, the Company will forthwith prepare and, subject to the provisions of paragraph (d) above, file with the Commission an appropriate supplement or amendment thereto and will expeditiously furnish copies thereof to the Underwriters and dealers in such quantities as you shall request. In the event that the Company and you, as Representatives of the several Underwriters, agree that the Prospectus should be amended or supplemented, the Company, if requested by you, will promptly issue a press release announcing or disclosing the matters to be covered by the proposed amendment or supplement.

(g) The Company will cooperate with you and with counsel for the Underwriters in connection with the registration or qualification of the Shares for offering and sale by the several Underwriters and by dealers under the securities or Blue Sky laws of such jurisdictions as you may designate and will file such consents to service of process or other documents necessary or appropriate in order to effect such registration or qualification; provided that in no event shall the Company be obligated to qualify to do business in any jurisdiction where it is not now so qualified or to take any action that would subject it to service of process in suits, other than those arising out of the offering or sale of the Shares, in any jurisdiction where it is not now so subject.

(h) The Company will make generally available to its security holders a consolidated earnings statement, which need not be audited, covering a twelve-month period commencing after the effective date of the Registration Statement and ending not later than 15 months thereafter, as soon as practicable after the end of such period, which consolidated earnings statement shall satisfy the provisions of Section 11(a) of the Act.

(i) During the period of five years hereafter, the Company will furnish to you (i) as soon as available, a copy of each report of the Company mailed to stockholders or filed with the Commission, and (ii) from time to time such other information concerning the Company as you may reasonably request.

(j) If this Agreement shall terminate or shall be terminated after execution pursuant to any provisions hereof (otherwise than pursuant to the second paragraph of Section 12 hereof or by notice given by you terminating this Agreement pursuant to Section 12 or Section 13 hereof) or if this Agreement shall be terminated by the Underwriters because of any failure or refusal on the part of the Company to comply with the terms or fulfill any of the conditions of this Agreement, the Company agrees to reimburse the Representatives for all out-of-pocket expenses (including fees and expenses of counsel for the Underwriters) incurred by you in connection herewith.

(k) The Company will apply the net proceeds from the sale of the Shares substantially in accordance with the description set forth in the Prospectus.

(l) If Rule 430A of the Act is employed, the Company will timely file the Prospectus pursuant to Rule 424(b) under the Act and will advise you of the time and manner of such filing.

(m) Except as provided in this Agreement, the Company will not sell, offer to sell, contract to sell or otherwise transfer or dispose of any Common Stock (or any securities convertible into or exercisable or exchangeable for Common Stock), or grant any options or warrants to purchase Common Stock, for a period of ___ days after the date of the Prospectus without the prior written consent of Smith Barney Inc.

(n) The Company has furnished or will furnish to you "lock-up" letters, in form and substance satisfactory to you, signed by each of its current officers and directors and each of its stockholders designated by you.

(o) Except as stated in this Agreement and in the Prepricing Prospectus and Prospectus, the Company has not taken, nor will it take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Shares.

(p) The Company will use its best efforts to have the Shares listed, subject to notice of issuance, on the New York Stock Exchange prior to or concurrently with the effectiveness of the registration statement.

6. Agreements of the Selling Stockholder. The Selling Stockholder agrees with the several Underwriters as follows:

(a) Such Selling Stockholder will cooperate to the extent necessary to cause the registration statement or any post-effective amendment thereto to become effective at the earliest possible time.

(b) Such Selling Stockholder will pay all Federal and other taxes, if any, on the transfer or sale of any Shares that are sold by such Selling Stockholder to the Underwriters.

(c) Such Selling Stockholder will do or perform all things reasonably required to be done or performed by such Selling Stockholder prior to the Closing Date and any Option Closing Date, as the case may be, to satisfy all conditions precedent to the delivery of the Shares to be sold by such Selling Stockholder pursuant to this Agreement.

(d) Such Selling Stockholder will not offer, sell, contract to sell or otherwise dispose of, or grant any option to purchase, any shares of Common Stock (or any securities convertible into or exercisable or exchangeable for Common Stock) owned by such Selling Stockholder, except for the sale of Shares to the Underwriters pursuant to this Agreement, without the prior written consent of Smith Barney Inc. for a period of ___ days after the date of the Prospectus.

(e) Except as stated in this Agreement and in the Prepricing Prospectus and the Prospectus, such Selling Stockholder will not take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Shares.

(f) Such Selling Stockholder will advise you promptly, and if requested by you, will confirm such advice in writing, within the period of time referred to in Section 5(f) hereof, of any change in information relating to such Selling Stockholder and of any change in the Company's condition (financial or other), business, prospects, properties, net worth or results of operations or any other information relating to the Company or relating to any matter stated in the Prospectus or any amendment or supplement thereto that comes to the attention of such Selling Stockholder that suggests that any statement of a material fact made in the Registration Statement or the Prospectus (as then amended or supplemented, if amended or supplemented) is or may be untrue in any material respect or that the Registration Statement or Prospectus (as then amended or supplemented, if amended or supplemented) omits or may omit to state a material fact or a fact necessary to be stated therein in order to make the statements therein not misleading in any material respect.

(g) In order to document the Underwriters' compliance with the reporting and withholding provisions of the Tax Equity and Fiscal Responsibility Act of 1982, as amended, with respect to the transactions herein contemplated, such Selling Stockholder agrees to deliver to you prior to or on the Option Closing Date a properly completed and executed United States Treasury Department Form W-9 (or other applicable form or statement specified by Treasury Department regulations in lieu thereof).

7. Representations and Warranties of the Company. The Company represents and warrants to each Underwriter that:

(a) Each Prepricing Prospectus included as part of the registration statement as originally filed or as part of any amendment or supplement thereto, or filed pursuant to Rule 424 under the Act, complied when so filed in all material respects with the provisions of the Act. The Commission has not issued any order preventing or suspending the use of any Prepricing Prospectus.

(b) The registration statement in the form in which it became or becomes effective and also in such form as it may be when any post-effective amendment thereto or any Abbreviated Registration Statement shall become effective, and the Prospectus and any supplement or amendment thereto when filed with the Commission under Rule 424(b) under the Act, complied or will comply in all material respects with the provisions of the Act and did not or will not at any such times contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, except that this representation and warranty does not apply to statements in or omissions from the registration statement or the Prospectus made in reliance upon and in conformity with information relating to any Underwriter furnished to the Company in writing by or on behalf of any Underwriter through you expressly for use therein.

(c) All the outstanding shares of capital stock of the Company have been duly authorized and validly issued, are fully paid and nonassessable, are free of any preemptive or similar rights and have been issued and sold in compliance with all Federal and state securities laws; the Shares to be issued and sold by the Company have been duly authorized and, when issued and delivered to the Underwriters against payment therefor in accordance with the terms hereof, will be validly issued, fully paid and nonassessable and free of any preemptive or similar rights. The capital stock of the Company conforms in all material respects to the description thereof in the Registration Statement and the Prospectus.

(d) The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware with full corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectus, and is duly registered and qualified to conduct its business and is in good standing in each jurisdiction or place where the nature of its properties or the conduct of its business requires such registration or qualification, except where the failure so to register or qualify would not have a material adverse effect on the condition (financial or other), business, prospects, properties, net worth or results of operations of the Company and the Subsidiaries (as hereinafter defined) taken as a whole (a "Material Adverse Effect").

(e) All the Company's subsidiaries (as defined in the Act), are listed in an exhibit to the Registration Statement and are referred to herein individually as a "Subsidiary" and collectively as the "Subsidiaries." Each Subsidiary is a corporation duly organized, validly existing and in good standing in the jurisdiction of its incorporation, with full corporate power and authority to own, lease and operate its properties and to conduct its business in all material respects as described in the Registration Statement and the Prospectus and is duly registered and qualified to conduct its business and is in good standing in each jurisdiction or place where the nature of its properties or the conduct of its business requires such registration, except where the failure so to register or qualify would not have a Material Adverse Effect. All the outstanding shares of capital stock of each of the Subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable, and are wholly-owned by the Company directly or indirectly through one of the other Subsidiaries, free and clear of any lien, adverse claim, security interest, equity or other encumbrance, except as disclosed in the Registration Statement and the Prospectus (or any amendment or supplement thereto).

(f) There are no legal or governmental proceedings pending or, to the knowledge of the Company, threatened, against the Company or any of the Subsidiaries, or to which the Company or any of the Subsidiaries or any of their respective properties is subject, that are required to be described in the Registration Statement or the Prospectus but are not described as required. There are no agreements, contracts, indentures, leases or other instruments that are required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement that are not described or filed as required by the Act. Neither the Company nor any of the Subsidiaries is involved in any strike, job action or labor dispute, and to the Company's best knowledge no such action or dispute is threatened.

(g) Neither the Company nor any of the Subsidiaries is (i) in violation of its certificate of incorporation or by-laws or other organizational documents, or of any law, ordinance, administrative or governmental rule or regulation applicable to the Company or any of the Subsidiaries or of any decree of any court or governmental agency or body having jurisdiction over the Company or any of the Subsidiaries, or (ii) in default in any material respect in the performance of any obligation, agreement or condition contained in any bond, debenture, note or any other evidence of indebtedness or in any material agreement, indenture, lease or other instrument to which the Company or any of the Subsidiaries is a party or by which it or any of their respective properties may be bound.

(h) Neither the issuance and sale of Shares by the Company, the execution, delivery or performance of this Agreement by the Company nor the consummation by the Company of the transactions contemplated hereby (i) requires any consent, approval, authorization or other order of, or registration or filing with, any court, regulatory body, administrative agency or other governmental body, agency or official (except such as may be required for the registration of the Shares under the Act and the Exchange Act, all of which have been or will be effected in accordance with this Agreement, and compliance with the securities or Blue Sky laws of various jurisdictions) or conflicts or will conflict with or constitutes or will constitute a breach of, or a default under, the certificate of incorporation or bylaws or other organizational documents of the Company or any of the Subsidiaries or (ii) conflicts or will conflict with or constitutes or will constitute a breach of, or a default under, any agreement, indenture, lease or other instrument to which the Company or any of the Subsidiaries is a party or by which the Company or any of the Subsidiaries or any of their respective properties may be bound, violates or will violate any statute, law or regulation, filing, judgment, injunction, order or decree applicable to the Company or any of the Subsidiaries or any of their respective properties or will result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of the Subsidiaries pursuant to the terms of any agreement or instrument to which it is a party or by which it may be bound or to which any of the property or assets of it is subject.

(i) The accountants, Arthur Andersen LLP, Ernst & Young LLP, Clifton, Gunderson & Co. and KPMG Peat Marwick LLP, who have certified or shall certify the financial statements filed or to be filed as part of the Registration Statement or the Prospectus (or any amendment or supplement thereto), are independent public accountants as required by the Act.

(j) The financial statements, together with related schedules and notes forming part of the Registration Statement and the Prospectus (and any amendment or supplement thereto), comply with the requirements of the Act and present fairly the consolidated financial position, results of operations and changes in stockholders' equity and cash flows of the Company and the Subsidiaries on the basis stated in the Registration Statement at the respective dates or for the respective periods to which they apply; such statements and related schedules and notes have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved, except as disclosed therein; the pro forma financial information included in the Registration Statement and the Prospectus (and any amendment or supplement thereto) has been prepared in accordance with the applicable published rules and regulations of the Commission with respect to pro forma financial information and the assumptions used in preparing such information are reasonable; and the other financial and statistical information and data set forth in the Registration Statement and the Prospectus (and any amendment or supplement thereto) are accurately presented and prepared on a basis consistent with such financial statements and the books and records of the Company.

(k) The Company has all requisite power and authority to execute, deliver and perform its obligations under this Agreement. The execution and delivery of, and the performance by the Company of its obligations under, this Agreement have been duly and validly authorized by the Company. This Agreement has been duly executed and delivered by the Company and constitutes the valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms, except as rights to indemnity and contribution hereunder may be limited by federal or state securities laws or principles of public policy and subject to the qualification that the enforceability of the Company's obligations hereunder may be limited by bankruptcy, fraudulent conveyance, insolvency, reorganization, moratorium and other laws relating to or affecting creditors' rights generally and by general equitable principles.

(l) Except as disclosed in the Registration Statement and the Prospectus (or any amendment or supplement thereto), subsequent to the respective dates as of which such information is given in the Registration Statement and the Prospectus (or any amendment or supplement thereto), neither the Company nor any of the Subsidiaries has incurred any liability or obligation, direct or contingent, or entered into any transaction that is material to the Company and the Subsidiaries taken as a whole, and there has not been any change in the capital stock, or material increase in the short-term or long-term debt, of the Company, or any material adverse change, or any development involving or which may reasonably be expected to involve a prospective material adverse change, in the condition (financial or other), business, prospects, properties, net worth or results of operations of the Company and the Subsidiaries taken as a whole.

(m) The Company and each of the Subsidiaries has good and marketable title to all property (real and personal) described in the Prospectus as being owned by it, free and clear of all liens, claims, security interests or other encumbrances, except such as are described in the Registration Statement and the Prospectus, and all the property described in the Prospectus as being held under lease by the Company or any of the Subsidiaries is held by it under valid, subsisting and enforceable leases.

(n) The Company has not distributed and, prior to the later to occur of the Closing Date and completion of the distribution of the Shares, will not distribute any offering material in connection with the offering and sale of the Shares other than the Registration Statement, the Prepricing Prospectus, the Prospectus or other materials, if any, permitted by the Act.

(o) Each of the Company, the Subsidiaries and, to the best of the Company's knowledge, the owners of the facilities managed by the Company or any Subsidiary have such permits, licenses, franchises, certificates of need and other approvals or authorizations ("Permits") of governmental or regulatory authorities as are necessary, except to the extent the failure to have such Permits would not have a Material Adverse Effect, to own, lease or operate their respective properties and to conduct their respective businesses in the manner described in the Prospectus, including, without limitation, such Permits as are required (x) under such federal and state health care laws as are applicable to the Company and the Subsidiaries and their respective businesses and (y) with respect to those facilities that are owned, leased or managed by the Company or any Subsidiary that participate in Medicare and/or Medicaid, to receive reimbursement thereunder, subject to such qualifications as may be set forth in the Prospectus. The Company, each of the Subsidiaries and, to the best of the Company's knowledge, each of the owners of the facilities managed by the Company or any Subsidiary have in all material respects fulfilled and performed all their respective obligations with respect to the Permits, and no event has occurred which allows, or after notice or lapse of time would allow, revocation or termination thereof or results in any other material impairment of the rights of the holder of any such Permit, subject to such qualifications as may be set forth in the Prospectus, which revocation, termination or impairment would have a Material Adverse Effect. Except as described in the Prospectus, none of the Permits contain any restriction that is materially burdensome to the Company or any of the Subsidiaries. The Company's and each Subsidiary's business practices do not violate any federal or state laws regarding physician ownership of (or financial relationship with) and referral to entities providing healthcare related goods or services, or laws requiring disclosure of financial interests held by physicians in entities to which they may refer patients for the provisions of health care related goods or services.

(p) The property, assets and operations of the Company and the Subsidiaries comply in all material respects with all applicable federal, state and local laws, rules, orders, decrees, judgments, injunctions, licenses, permits or regulations relating to environmental matters (the "Environmental Laws"). To the Company's best knowledge, none of the Company's nor any of the Subsidiaries' property, assets or operations is the subject of any federal, state or local investigation evaluating whether any remedial action is needed to respond to a release of any substance regulated by or form the basis of liability under any Environmental Laws (a "Hazardous Material") into the environment. Neither the Company nor any of the Subsidiaries has received any notice or claim, nor are there any pending or, to the Company's best knowledge, threatened or reasonably anticipated lawsuits against it with respect to violations of an Environmental Law or in connection with the release of any Hazardous Material into the environment. Neither the Company nor any of the Subsidiaries has any material contingent liability in connection with any release of Hazardous Material into the environment.

(q) The Company and the Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are customary in the businesses in which they are engaged; (ii) all policies of insurance insuring the Company or any of the Subsidiaries or their respective businesses, assets, employees, officers and directors are in full force and effect; (iii) the Company and the Subsidiaries are in compliance with the terms of such policies and instruments in all material respects; and (iv) there are no claims by the Company or any of the Subsidiaries under any such policy or instrument as to which any insurance company is denying liability or defending under a reservation of rights clause.

(r) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(s) Neither the Company nor any of the Subsidiaries nor, to the Company's best knowledge, any employee or agent of the Company or any of the Subsidiaries has made any payment of funds of the Company or received or retained any funds in violation of any law, rule or regulation, which payment, receipt or retention of funds is of a character required to be disclosed in the Prospectus.

(t) The Company and the Subsidiaries have filed all federal, state, local and foreign tax returns and tax forms required to be filed; such returns and forms are complete and correct in all material respects; and all taxes shown by such returns or otherwise assessed that are due or payable have been paid, except such taxes as are being contested in good faith and as to which adequate reserves have been provided. All payroll withholdings required to be made by the Company with respect to employees have been made. The charges, accruals and reserves on the books of the Company and the Subsidiaries in respect of any tax liability for any year not finally determined are adequate to meet any assessments or reassessments for additional taxes; and there have been no tax deficiencies asserted and, to the best knowledge of the Company, no tax deficiency might be reasonably asserted or threatened against the Company or any of the Subsidiaries that could, singularly or in the aggregate, have a Material Adverse Effect.

(u) No holder of any security of the Company has any right (other than rights validly waived) to require registration of shares of Common Stock or any other security of the Company because of the filing of the registration statement or the consummation of the transactions contemplated by this Agreement and, except as disclosed in the Prospectus, no person has the right to require registration under the Act of any shares of Common Stock or other securities of the Company. No person has the right, contractual or otherwise, to cause the Company to permit such person to underwrite the sale of any of the Shares. Except as described in or contemplated by the Prospectus, there are no outstanding options, warrants or other rights calling for the issuance of, and there are no commitments, plans or arrangements to issue, any shares of capital stock of the Company or any security convertible into or exchangeable or exercisable for capital stock of the Company or any of the Subsidiaries.

(v) The Company and the Subsidiaries own or possess all patents, trademarks, trademark registrations, service marks, service mark registrations, trade names, copyrights, licenses, inventions, trade secrets and rights described in the Prospectus as being owned by any of them or necessary for the conduct of their respective businesses, and the Company is not infringing upon the rights of any other person with respect to the foregoing.

(w) The Company has filed in a timely manner with the Commission each document required to be filed by it pursuant to the Exchange Act, each such document at the time it was filed conformed in all material respects to the requirements of the Exchange Act and none of such documents contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

(x) The Company is not, and, upon the sale of the Shares to be issued and sold by it hereunder and application of the net proceeds from such sale as described in the Prospectus under the caption "Use of Proceeds," will not be an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(y) The Company and each of the Subsidiaries is in compliance with all provisions of Florida Statutes Sec.517.075 and the regulations thereunder, relating to issuers doing business with Cuba.

(z) Neither the execution, delivery or performance of the Asset Purchase Agreement by and among the Company, UHS of Pennsylvania, Inc., UHS of Delaware, Inc., Wellington Regional Medical Center, Inc., First Hospital Corporation, FHC Management Services, Inc., Health Services Management, Inc., Horsham Clinic, Inc., Centre Valley Management, Inc., Clarion FHC, Inc., Westcare, Inc. and First Hospital Corporation of Florida dated April 19, 1996 (the "First Hospital Acquisition Agreement") by the Company nor the consummation by the Company of the transactions contemplated thereby (i) requires or required any consent, approval, authorization or other order of, or registration with, any court, regulatory body, administrative agency or other governmental body, agency or official (except such as have been obtained by the Company or the Subsidiaries in a timely fashion) or conflicted, conflicts or will conflict with or constituted, constitutes or will constitute a breach of, or a default under the certificate or articles of incorporation or bylaws or other organizational documents of the Company or any of the Subsidiaries or (ii) conflicted, conflicts or will conflict with or constituted, constitutes or will constitute a breach of, or a default under, any agreement, indenture, lease or other instrument to which the Company or any of the Subsidiaries is a party or by which any of them or any of their respective properties may be bound, or violates or will violate any statute, law, regulation or filing or judgment, injunction, order or decree applicable to the Company or any of the Subsidiaries or any of their respective properties, or will result in the creation or imposition of any lien, charge or incumbrance upon any property or assets of the Company or any of the Subsidiaries pursuant to the terms of any agreement or instrument to which any of them is a party or by which any of them may be bound or to which any of the property or assets of any of them is subject.

8. Representations and Warranties of the Selling Stockholder. The Selling Stockholder represents and warrants to each Underwriter that:

(a) Such Selling Stockholder now has, and on the Closing Date and any Option Closing Date will have, valid and marketable title to the Shares to be sold by such Selling Stockholder, free and clear of any lien, claim, security interest or other encumbrance, including, without limitation, any restriction on transfer or other defect in title.

(b) Such Selling Stockholder now has, and on the Closing Date will have, full legal right, power and authorization, and any approval required by law (except such as may be required under the Act or state securities or Blue Sky laws governing the purchase and distribution of the Shares), to sell, assign, transfer and deliver such Selling Stockholder's Shares in the manner provided in this Agreement, and upon delivery of and payment for such Shares hereunder, the several Underwriters will acquire valid and marketable title to such Shares, free and clear of any lien, claim, security interest, or other encumbrance or restriction on transfer or other defect in title.

(c) This Agreement and the Custody Agreement have been duly authorized, and the Custody Agreement has been, and this Agreement, when executed and delivered on behalf of such Selling Stockholder in accordance with the Custody Agreement, has been duly executed and delivered by or on behalf of such Selling Stockholder and are the valid and binding agreements of such Selling Stockholder enforceable against such Selling Stockholder in accordance with their respective terms, except as rights to indemnity and contribution hereunder may be limited by federal or state securities laws or principles of public policy and except as enforcement hereof and thereof may be limited by bankruptcy, fraudulent conveyance, insolvency, reorganization, moratorium and other laws relating to or affecting creditors' rights generally and by general equitable principles.

(d) Neither the execution and delivery of this Agreement or the Custody Agreement by or on behalf of such Selling Stockholder nor the consummation of the transactions herein or therein contemplated by or on behalf of such Selling Stockholder requires any consent, approval, authorization or order of, or filing or registration with, any court, regulatory body, administrative agency or other governmental body, agency or official (except such as may be required under the Act or state securities or Blue Sky laws governing the purchase and distribution of the Shares) or conflicts or will conflict with or constitutes or will constitute a breach of, or default under, or violates or will violate, any agreement, indenture or other instrument to which such Selling Stockholder is a party or by which such Selling Stockholder is or may be bound or to which any of such Selling Stockholder's property or assets is subject, or any statute, law, rule, regulation, ruling, judgement, injunction, order or decree applicable to such Selling Stockholder or to any property or assets of such Selling Stockholder, except in each case as would not adversely affect the ability of such Selling Stockholder to consummate the transactions contemplated by this Agreement.

(e) Such Selling Stockholder has reviewed the Registration Statement and the Prospectus. The Registration Statement does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading and the Prospectus does not contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(f) The representations and warranties of such Selling Stockholder in the Custody Agreement are, and on the Closing Date will be, true and correct.

(g) Such Selling Stockholder has not taken, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Shares, except for the lock-up arrangements described in the Prospectus.

9. Indemnification and Contribution. (a) The Company agrees to indemnify and hold harmless each of you and each other Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act from and against any and all losses, claims, damages, liabilities and expenses (including reasonable costs of investigation) arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in any Prepricing Prospectus or in the Registration Statement or the Prospectus or in any amendment or supplement thereto, or arising out of or based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or expenses arise out of or are based upon any untrue statement or omission or alleged untrue statement or omission which has been made therein or omitted therefrom in reliance upon and in conformity with the information relating to such Underwriter furnished in writing to the Company by or on behalf of any Underwriter through you expressly for use in connection therewith; provided, however, that the indemnification contained in this paragraph (a) with respect to any Prepricing Prospectus shall not inure to the benefit of any Underwriter (or to the benefit of any person controlling such Underwriter) on account of any such loss, claim, damage, liability or expense arising from the sale of Shares by such Underwriter to any person if (i) a copy of the Prospectus shall not have been delivered or sent to such person within the time required by the Act and the untrue statement or alleged untrue statement or omission or alleged omission of a material fact contained in such Prepricing Prospectus was corrected in the Prospectus and (ii) the Company has delivered the Prospectus to the several Underwriters in requisite quantity on a timely basis to permit such delivery or sending. The foregoing indemnity agreement shall be in addition to any liability which the Company may otherwise have.

(b) If any action, suit or proceeding shall be brought against any Underwriter or any person controlling any Underwriter in respect of which indemnity may be sought against the Company, such Underwriter or such controlling person shall promptly notify the Company, and the Company shall assume the defense thereof, including the employment of counsel and payment of all fees and expenses. Such Underwriter or any such controlling person shall have the right to employ separate counsel in any such action, suit or proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Underwriter or such controlling person unless (i) the Company has agreed in writing to pay such fees and expenses, (ii) the Company has failed to assume the defense and employ counsel or (iii) the named parties to any such action, suit or proceeding (including any impleaded parties) include both such Underwriter or such controlling person and the Company and such Underwriter or such controlling person shall have been advised by its counsel that representation of such indemnified party and the Company by the same counsel would be inappropriate under applicable standards of professional conduct (whether or not such representation by the same counsel has been proposed) due to actual or potential differing interests between them (in which case the Company shall not have the right to assume the defense of such action, suit or proceeding on behalf of such Underwriter or such controlling person). It is understood, however, that the Company shall, in connection with any one such action, suit or proceeding or separate but substantially similar or related actions, suits or proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of only one separate firm of attorneys (in addition to any local counsel) at any time for all such Underwriters and controlling persons not having actual or potential differing interests with you or among themselves, which firm shall be designated in writing by Smith Barney Inc., and that all such fees and expenses shall be reimbursed as they are incurred. The Company shall not be liable for any settlement of any such action, suit or proceeding effected without its written consent, but if settled with such written consent, or if there be a final judgment for the plaintiff in any such action, suit or proceeding, the Company agrees to indemnify and hold harmless any Underwriter and any such controlling person, to the extent provided in the preceding paragraph, from and against any loss, claim, damage, liability or expense by reason of such settlement or judgment.

(c) The Selling Stockholder agrees to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act to the same extent as the indemnity from the Company to each Underwriter set forth in paragraph (a) above, but subject to the provisions of paragraph (g) below. In case any action or claim shall be brought or asserted against any Underwriter or any such controlling person in respect of which indemnity may be sought against the Selling Stockholder pursuant to this paragraph (c) such Selling Stockholder shall have the rights and duties given to the Company, and each Underwriter and any such controlling person shall have the rights and duties given to the Underwriters, under paragraph (b) above. The foregoing indemnity agreement shall be in addition to any liability which the Selling Stockholder may otherwise have.

(d) Each Underwriter agrees, severally and not jointly, to indemnify and hold harmless the Company, its directors, its officers who sign the Registration Statement, any person who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act and the Selling Stockholder, to the same extent as the foregoing indemnity from the Company to each Underwriter, but only with respect to information relating to such Underwriter furnished in writing to the Company by or on behalf of such Underwriter through you expressly for use in the Registration Statement, the Prospectus or any Prepricing Prospectus, or any amendment or supplement thereto. If any action, suit or proceeding shall be brought against the Company, any of its directors, any such officer, any such controlling person or the Selling Stockholder based on the Registration Statement, the Prospectus or any Prepricing Prospectus, or any amendment or supplement thereto, and in respect of which indemnity may be sought against any Underwriter pursuant to this paragraph (d), such Underwriter shall have the rights and duties given to the Company by paragraph (b) above (except that if the Company shall have assumed the defense thereof such Underwriter shall not be required to do so, but may employ separate counsel therein and participate in the defense thereof, but the fees and expenses of such counsel shall be at such Underwriter's expense), and the Company, its directors, any such officer, any such controlling person and the Selling Stockholder shall have the rights and duties given to the Underwriters by paragraph (b) above. The foregoing indemnity agreement shall be in addition to any liability which the Underwriters may otherwise have.

(e) If the indemnification provided for in this Section 9 is unavailable to an indemnified party under paragraphs (a), (c) or (d) hereof in respect of any losses, claims, damages, liabilities or expenses referred to therein, then an indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses (i) in such proportion as is appropriate to reflect the relative benefits received by the Sellers on the one hand and the Underwriters on the other hand from the offering of the Shares, or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Sellers on the one hand and the Underwriters on the other hand in connection with the statements or omissions that resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Sellers on the one hand and the Underwriters on the other hand shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Sellers bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault of the Sellers on the one hand and the Underwriters on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Sellers on the one hand or by the Underwriters on the other hand and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

(f) The Sellers and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 9 were determined by a pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in paragraph (e) above. The amount paid or payable by an indemnified party as a result of the losses, claims, damages, liabilities and expenses referred to in paragraph (e) above shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating any claim or defending any such action, suit or proceeding. Notwithstanding the provisions of this Section 9, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price of the Shares underwritten by it and distributed to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute pursuant to this Section 9 are several in proportion to the respective numbers of Firm Shares set forth opposite their names in Schedule I hereto (or such numbers of Firm Shares increased as set forth in Section 12 hereof) and not joint.

(g) Notwithstanding any other provision of this Section 9, the total liability of the Selling Stockholder for indemnification or contribution under this Section 9 shall not exceed an amount equal to the number of Shares sold by such Selling Stockholder hereunder multiplied by the purchase price per share set forth in Section 2 hereof.

(h) No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action, suit or proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such action, suit or proceeding.

(i) Any losses, claims, damages, liabilities or expenses for which an indemnified party is entitled to indemnification or contribution under this Section 9 shall be paid by the indemnifying party to the indemnified party as such losses, claims, damages, liabilities or expenses are incurred. The indemnity and contribution agreements contained in this Section 9 and the representations and warranties of the Sellers set forth in this Agreement shall remain operative and in full force and effect, regardless of (i) any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter, the Company, its directors or officers or any person controlling the Company or the Selling Stockholder, (ii) acceptance of any Shares and payment therefor hereunder and (iii) any termination of this Agreement. A successor to any Underwriter or any person controlling any Underwriter, or to the Company, its directors or officers, or any person controlling the Company or the Selling Stockholder shall be entitled to the benefits of the indemnity, contribution and reimbursement agreements contained in this Section 9.

10. Conditions of Underwriters' Obligations. The several obligations of the Underwriters to purchase the Firm Shares hereunder are subject to the following conditions:

(a) If, at the time this Agreement is executed and delivered, it is necessary for the registration statement or a post-effective amendment thereto or an Abbreviated Registration Statement to be declared effective before the offering of the Shares may commence, the registration statement or such post-effective amendment or Abbreviated Registration Statement shall have become effective not later than 5:30 P.M., New York City time, on the date hereof, or at such later date and time as shall be consented to in writing by you, and all filings, if any, required by Rules 424 and 430A under the Act shall have been timely made.

(b) Subsequent to the effective date of this Agreement, there shall not have occurred (i) any change, or any development involving a prospective change, in or affecting the condition (financial or other), business, prospects, properties, net worth, or results of operations of the Company and the Subsidiaries not contemplated by the Prospectus, which in your opinion, as Representatives of the several Underwriters, would materially, adversely affect the market for the Shares, or (ii) any event or development relating to or involving the Company and the Subsidiaries, or any officer or director of the Company or any of the Subsidiaries, which makes any statement made in the Prospectus untrue or which, in the opinion of the Company and its counsel or the Underwriters and their counsel, requires the making of any addition to or change in the Prospectus in order to state a material fact required by the Act or any other law to be stated therein or necessary in order to make the statements therein not misleading, if amending or supplementing the Prospectus to reflect such event or development would, in your opinion, as Representatives of the several Underwriters, materially, adversely affect the market for the Shares.

(c) You shall have received on the Closing Date an opinion of Fulbright & Jaworski L.L.P., counsel for the Company, dated the Closing Date and addressed to you, as Representatives of the several Underwriters, that:

(i) The Company is a corporation duly incorporated and validly existing in good standing under the laws of the State of Delaware with full corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectus (and any amendment or supplement thereto), and is duly registered and qualified to conduct its business and is in good standing in each jurisdiction or place where the nature of its properties or the conduct of its business requires such registration or qualification, except where the failure so to register or qualify would not have a Material Adverse Effect;

(ii) The authorized capital stock of the Company is as set forth in the Registration Statement and the Prospectus; and all the shares of capital stock of the Company outstanding prior to the issuance of the Shares have been duly authorized and validly issued, fully paid and nonassessable and free of statutory and contractual preemptive rights;

(iii) The Shares to be issued and sold by the Company have been duly authorized and, when issued and delivered to the Underwriters against payment therefor in accordance with the terms hereof, will be validly issued, fully paid and nonassessable and free of (A) any preemptive rights arising under the Company's certificate of incorporation or the Delaware General Corporation Law or (B) to the knowledge of such counsel, similar rights that entitle or will entitle any person to acquire any shares of capital stock of the Company upon the issuance and sale of the Shares by the Company;

(iv) The form of certificate for the Shares conforms to the requirements of the Delaware General Corporation Law;

(v) The Registration Statement and all post-effective amendments, if any, have become effective under the Act and, to the best of such counsel's knowledge, no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose are pending before or contemplated by the Commission; and any required filing of the Prospectus pursuant to Rule 424(b) has been made in accordance with Rule 424(b);

(vi) The Company has the corporate power and authority to enter into this Agreement and to issue, sell and deliver to the Underwriters the Shares to be issued and sold by the Company as provided herein, and this Agreement has been duly authorized, executed and delivered by the Company and is a valid, legal and binding agreement of the Company, enforceable against the Company in accordance with its terms, except as enforcement of rights to indemnity and contribution hereunder may be limited by federal or state securities laws or principles of public policy and subject to the qualification that the enforceability of the Company's obligations hereunder may be limited by bankruptcy, fraudulent conveyance, insolvency, reorganization, moratorium and other laws relating to or affecting creditors' rights generally and by general equitable principles;

(vii) To the knowledge of such counsel, neither the Company nor any of the Subsidiaries is in violation of its certificate of incorporation or bylaws, or other organizational documents, or in default in the performance of any material obligation, agreement or condition contained in any bond, debenture, note or other evidence of indebtedness made an exhibit to the Registration Statement or known to such counsel;

(viii) Neither the offer, sale or delivery of the Shares, the execution, delivery or performance of this Agreement, compliance by the Company with the provisions hereof nor consummation by the Company of the transactions contemplated hereby conflicts or will conflict with or constitutes or will constitute a breach of, or a default under, the certificate of incorporation or bylaws, or other organizational documents, of the Company or any of the Subsidiaries or any agreement, indenture, lease or other instrument to which the Company or any of the Subsidiaries is a party or by which the Company or any of the Subsidiaries or any of their respective properties is bound that is an exhibit to the Registration Statement, or is known to such counsel after reasonable inquiry, or to the knowledge of such counsel will result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of the Subsidiaries, nor will any such action result in any violation of any existing law, regulation, ruling (assuming compliance with all applicable state securities and Blue Sky laws), judgment, injunction, order or decree known to such counsel and applicable to the Company or any of the Subsidiaries or any of their respective properties;

(ix) No consent, approval, authorization or other order of, or registration or filing with, any court, regulatory body, administrative agency or other governmental body, agency, or official is required on the part of the Company or any of the Subsidiaries (except as have been obtained under the Act and the Exchange Act or such as may be required under state securities or Blue Sky laws governing the purchase and distribution of the Shares) for the valid issuance and sale of the Shares to the Underwriters as contemplated by this Agreement;

(x) The Registration Statement and the Prospectus and any supplements or amendments thereto (except for the financial statements and the notes thereto and the schedules and other financial and statistical data included therein, as to which such counsel need not express any opinion) comply as to form in all material respects with the requirements of the Act;

(xi) To the knowledge of such counsel, (A) there are no legal or governmental proceedings pending or threatened against the Company or any of the Subsidiaries, or to which the Company or any of the Subsidiaries or any of their respective properties is subject, which are required to be described in the Registration Statement or Prospectus (or any amendment or supplement thereto) that are not described as required and (B) there are no agreements, contracts, indentures, leases or other instruments that are required to be described in the Registration Statement or the Prospectus (or any amendment or supplement thereto) or to be filed as an exhibit to the Registration Statement that are not described or filed as required, as the case may be;

(xii) The statements in the Registration Statement and Prospectus, insofar as they are descriptions of contracts, agreements or other legal documents, or refer to statements of law or legal conclusions, are accurate in all material respects and present fairly the information required to be shown;

(xiii) The Company is not an "investment company" or a person "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended;

(xiv) Neither the execution, delivery or performance of the First Hospital Acquisition Agreement, compliance by the Company with the provisions thereof nor consummation by the Company of the transactions contemplated thereby conflicted, conflicts or will conflict with or constituted, constitutes or will constitute a breach of, or a default under, the certificates of incorporation or bylaws or other organizational documents of the Company or any of the Subsidiaries or any agreement, indenture, lease or other instrument to which the Company or any of the Subsidiaries is a party or by which any of them or any of their respective properties is bound that is an exhibit to the Registration Statement or is known to such counsel after reasonable inquiry (except where appropriate waivers or consents thereto have heretofore been obtained by the Company), or will result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of the Subsidiaries, nor will any such action result in any violation of any existing law, regulation, ruling, judgment, injunction, order or decree known to such counsel after reasonable inquiry, applicable to the Company or any of the Subsidiaries or any of their respective properties; and

(xv) The Incorporated Documents (except for the financial statements and the notes thereto and the schedules and other financial and statistical data included therein, as to which such counsel need not express any opinion) appear on their face to comply as to form in all material respects with the Exchange Act.

In addition, such counsel shall state that although such counsel has not undertaken, except as otherwise indicated in their opinion, to determine independently, and does not assume any responsibility for, the accuracy, completeness or fairness of the statements in the Registration Statement, such counsel has participated in the preparation of the Registration Statement and the Prospectus, including review and discussion of the contents thereof, and nothing has come to the attention of such counsel that has caused it to believe that the Registration Statement, at the time the Registration Statement became effective, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus, as of its date and as of the Closing Date or any Option Closing Date, as the case may be, contained an untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, or that any amendment or supplement to the Prospectus, as of its date, and as of the Closing Date or any Option Closing Date, as the case may be, contained or contains an untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading (it being understood that such counsel need express no opinion with respect to the financial statements and the notes thereto and the schedules and other financial and statistical data included in the Registration Statement or the Prospectus).

In rendering their opinion as aforesaid, counsel may rely upon an opinion or opinions, each dated the Closing Date, of other counsel retained by them or the Company as to laws of any jurisdiction other than the United States or the State of New York or the corporation law of the State of Delaware, provided that (1) each such local counsel is acceptable to the Representatives, (2) such reliance is expressly authorized by each opinion so relied upon and a copy of each such opinion is delivered to the Representatives and is, in form and substance, satisfactory to them and counsel for the Underwriters and (3) counsel shall state in their opinion that they believe that they and the Underwriters are justified in relying thereon.

(d) You shall have received on the Closing Date an opinion of Bruce R. Gilbert, Esq., General Counsel for the Company, dated the Closing Date and addressed to you, as Representatives of the several Underwriters, that:

(i) Each of the Company and each of the Subsidiaries are duly qualified or licensed by each jurisdiction in which they conduct their respective businesses and in which the failure, individually or in the aggregate, to be so licensed or qualified could have a Material Adverse Effect, and the Company and its Subsidiaries are duly qualified, and are in good standing, in each jurisdiction in which they own or lease real property or maintain an office and in which such qualification is necessary;

(ii) Each Subsidiary is a corporation duly incorporated and validly existing and in good standing under the laws of the jurisdiction of its organization, with full corporate or partnership power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectus (and any amendment or supplement thereto); and all the outstanding shares of capital stock of each of the Subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable and are owned of record by the Company directly, or indirectly through one of the other Subsidiaries, free and clear of any perfected security interest or, to such counsel's knowledge, any other lien, adverse claim, equity or other encumbrance, except as disclosed in the Registration Statement and the Prospectus (or any amendment or supplement thereto);

(iii) To the best of such counsel's knowledge, none of the Subsidiaries is in violation of its certificate or articles of incorporation or bylaws, or partnership agreement, or is in breach of, or in default under (nor has any event occurred which with notice, lapse of time, or both, would constitute a breach of, or default under), any license, indenture, mortgage, deed of trust, bank loan or credit agreement or any other agreement or instrument to which the Company or any of its Subsidiaries is a party or by which any of them or their respective properties may be bound or affected or under any law, regulation or rule or any decree, judgment or order applicable to the Company or its Subsidiaries;

(iv) To the knowledge of such counsel, neither the Company nor any of the Subsidiaries is in violation of any law, ordinance, administrative or governmental rule or regulation applicable to the Company or any such Subsidiary the violation of which would have a Material Adverse Effect, or of any decree of any court or governmental agency or body having jurisdiction over the Company or any of the Subsidiaries;

(v) The Company and each of the Subsidiaries have full corporate power and authority and such Permits as are necessary to own, lease and operate their respective properties and to conduct their respective businesses as are now being conducted as described in the Registration Statement or the Prospectus (or any amendment or supplement thereto), including such Permits as are required (x) under such federal and state health care laws as are applicable to the Company and the Subsidiaries and their respective businesses and (y) under such HMO or similar licensure laws and such insurance laws and regulations as are applicable to the Company and the Subsidiaries, except where the failure to have such Permits would not have a Material Adverse Effect;

(vi) To the knowledge of such counsel, neither the Company nor any of the Subsidiaries is in violation of any healthcare law, ordinance, administrative or governmental rule or regulation applicable to them, respectively, or of any decree of any court or governmental agency or body having jurisdiction over them relating thereto, respectively, except where any such violation would not have a Material Adverse Effect; and, in the course of such counsel's representation of the Company or any Subsidiary, nothing has come to such counsel's attention to cause it to believe that the Company or any Subsidiary is in violation of any other law, ordinance, administrative or governmental rule or regulation applicable to it or of any decree of any court or governmental agency or body having jurisdiction over it, except where any such violation would not have a Material Adverse Effect; and

(vii) Except as described in the Prospectus, such counsel does not know of any holder of any securities of the Company or any of the Subsidiaries or any other person who has the right, contractual or otherwise, to cause the Company to sell or otherwise issue to them, or to permit them to underwrite the sale of, any of the Shares or the right to have any Common Stock or other securities of the Company included in the Registration Statement or the right, as a result of the filing of the Registration Statement, to require the Company to register under the Act any shares of Common Stock or other securities of the Company, and any registration rights in connection with the offering contemplated hereby have been validly waived.

(e) You shall have received on the Closing Date an opinion of Dewey Ballantine, counsel for the Underwriters, dated the Closing Date and addressed to you, as Representatives of the several Underwriters, with respect to the matters referred to in clauses (iii) (other than subclause (B) thereof), (v), (vi), (x) and the penultimate paragraph of Section 10(c) hereof and such other related matters as you may request.

(f) You shall have received on the Closing Date an opinion of [Fulbright & Jaworski L.L.P.], counsel to the Selling Stockholder, dated the Closing Date and addressed to you, as Representatives of the several Underwriters, to the effect that:

(i) This Agreement and the Custody Agreement have each been duly executed and delivered by or on behalf the Selling Stockholder;

(ii) To the knowledge of such counsel, the Selling Stockholder has full legal right, power and authorization, and any approval required by law, to sell, assign, transfer and deliver good and marketable title to the Shares which such Selling Stockholder has agreed to sell pursuant to this Agreement; upon delivery of such Shares pursuant to this Agreement and payment therefor as contemplated herein and assuming that the several Underwriters purchased such Shares in good faith and without notice of an adverse claim within the meaning of the Uniform Commercial Code (the "UCC"), the Underwriters will acquire such Shares free and clear of any adverse claim (within the meaning of Section 8-302 of the UCC); and

(iii) To the knowledge of such counsel, the execution and delivery of this Agreement and the Custody Agreement by or on behalf of the Selling Stockholder and the consummation of the transactions contemplated hereby and thereby will not conflict with, violate, result in a breach of or constitute a default under the terms or provisions of any agreement, indenture or other instrument to which the Selling Stockholder is a party or by which the Selling Stockholder or the assets or property of the Selling Stockholder is bound, or any court order or decree or any law, rule, or regulation applicable to the Selling Stockholder or to the property or assets of the Selling Stockholder.

In rendering their opinion as aforesaid, such counsel may rely as to factual matters (i) upon certificates of the Selling Stockholder and (ii) the representations of the Selling Stockholder contained herein and in the Custody Agreement.

(g) You shall have received letters addressed to you and dated the date hereof and the Closing Date from Arthur Andersen LLP, Ernst & Young LLP, Clifton, Gunderson & Co. and KPMG Peat Marwick LLP, independent certified public accountants, substantially in the forms heretofore approved by you.

(h) (i) No stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been instituted or, to the knowledge of the Company, contemplated by the Commission at or prior to the Closing Date and any request of the Commission for additional information (to be included in the registration statement or the prospectus or otherwise) shall have been complied with; (ii) there shall not have been any change in the capital stock of the Company nor any material increase in the short-term or long-term debt of the Company from that set forth or contemplated in the Registration Statement or the Prospectus (or any amendment or supplement thereto); (iii) there shall not have been, since the respective dates as of which information is given in the Registration Statement and the Prospectus (or any amendment or supplement thereto), except as may otherwise be stated in the Registration Statement and Prospectus (or any amendment or supplement thereto), any material adverse change in the condition (financial or other), business, prospects, properties, net worth or results of operations of the Company; (iv) the Company shall not have any liabilities or obligations, direct or contingent (whether or not in the ordinary course of business), that are material to the Company, other than those reflected in or contemplated by the Registration Statement or the Prospectus (or any amendment or supplement thereto); and (v) all the representations and warranties of the Company contained in this Agreement shall be true and correct in all material respects on and as of the date hereof and on and as of the Closing Date as if made on and as of the Closing Date, and you shall have received a certificate, dated the Closing Date and signed by the chief executive officer and the chief financial officer of the Company (or such other officers as are acceptable to you), as to the matters set forth in this Section 10(g) and in Section 10(h) hereof.

(i) The Company shall not have failed at or prior to the Closing Date to have performed or complied with any of its agreements herein contained and required to be performed or complied with by it hereunder at or prior to the Closing Date.

(j) All the representations and warranties of the Selling Stockholder contained in this Agreement shall be true and correct on and as of the date hereof and on and as of the Closing Date as if made on and as of the Closing Date, and you shall have received a certificate, dated the Closing Date and signed by or on behalf of the Selling Stockholder to the effect set forth in this Section 10(i) and in Section 10(j) hereof.

(k) The Selling Stockholder shall not have failed at or prior to the Closing Date to have performed or complied with any of their agreements herein contained and required to be performed or complied with by such Selling Stockholder hereunder at or prior to the Closing Date.

(l) The Shares shall have been listed or approved for listing subject to notice of issuance on the New York Stock Exchange.

(m) The Company shall have furnished or caused to be furnished to you such further certificates and documents as you shall have reasonably requested.

All such opinions, certificates, letters and other documents will be in compliance with the provisions hereof only if they are satisfactory in form and substance to you, as Representatives of the Underwriters, and counsel for the Underwriters.

Any certificate or document signed by any officer of the Company and delivered to you, as Representatives of the several Underwriters, or to counsel for the Underwriters, shall be deemed a representation or warranty by the Company to each Underwriter as to the statements made therein.

The several obligations of the Underwriters to purchase Additional Shares hereunder are subject to the satisfaction on and as of any Option Closing Date of the conditions set forth in this Section 10, except that, if any Option Closing Date is other than the Closing Date, the certificates, opinions and letters referred to in paragraphs (c) through (g) and paragraph (j) shall be dated the Option Closing Date in question and the opinions called for by paragraphs (c), (d) and (e) shall be revised to reflect the sale of Additional Shares.

11. Expenses. The Company agrees to pay the following costs and expenses and all other costs and expenses incident to the performance by it of its obligations hereunder: (i) the preparation, printing or reproduction, and filing with the Commission of the registration statement (including financial statements and exhibits thereto), each Prepricing Prospectus, the Prospectus, and each amendment or supplement to any of them; (ii) the printing (or reproduction) and delivery (including postage, air freight charges and charges for counting and packaging) of such copies of the registration statement, each Prepricing Prospectus, the Prospectus, and all amendments or supplements to any of them as may be reasonably requested for use in connection with the offering and sale of the Shares; (iii) the preparation, printing, authentication, issuance and delivery of certificates for the Shares, including any stamp taxes in connection with the offering of the Shares; (iv) the printing (or reproduction) and delivery of this Agreement, the preliminary and supplemental Blue Sky Memoranda and all other agreements or documents printed (or reproduced) and delivered in connection with the offering of the Shares; (v) the listing of the Shares on the New York Stock Exchange; (vi) the registration or qualification of the Shares for offer and sale under the securities or Blue Sky laws of the several states as provided in Section 5(g) hereof (including the reasonable fees, expenses and disbursements of counsel for the Underwriters relating to the preparation, printing or reproduction, and delivery of the preliminary and supplemental Blue Sky Memoranda and such registration and qualification); (vii) the filing fees and the reasonable fees and expenses of counsel for the Underwriters in connection with any filings required to be made with the National Association of Securities Dealers, Inc. in connection with the offering; (viii) the transportation and other expenses incurred by or on behalf of representatives of the Company in connection with presentations to prospective purchasers of the Shares; (ix) the fees and expenses of the Company's accountants and the fees and expenses of counsel (including local and special counsel) for the Company; and (x) the performance by the Company of its other obligations under this Agreement.

12. Effective Date of Agreement. This Agreement shall become effective: (i) upon the execution and delivery hereof by the parties hereto; or (ii) if, at the time this Agreement is executed and delivered, it is necessary for the registration statement or a post-effective amendment thereto or an Abbreviated Registration Statement to be declared or became effective before the offering of the Shares may commence, when notification of the effectiveness of the registration statement or such post-effective amendment has been released by the Commission or such Abbreviated Registration Statement has, pursuant to the provisions of Rule 462 under the Act, become effective. Until such time as this Agreement shall have become effective, it may be terminated by the Company, by notifying you, or by you, as Representatives of the several Underwriters, by notifying the Company.

If any one or more of the Underwriters shall fail or refuse to purchase Shares which it or they have agreed to purchase hereunder, and the aggregate number of Shares which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase is not more than one-tenth of the aggregate number of Shares which the Underwriters are obligated to purchase on the Closing Date, each non-defaulting Underwriter shall be obligated, severally, in the proportion which the number of Firm Shares set forth opposite its name in Schedule I hereto bears to the aggregate number of Firm Shares set forth opposite the names of all non-defaulting Underwriters or in such other proportion as you may specify in accordance with Section 20 of the Master Agreement Among Underwriters of Smith Barney, Harris Upham & Co. Incorporated (predecessor of Smith Barney Inc.), to purchase the Shares which such defaulting Underwriter or Underwriters agreed, but failed or refused, to purchase. If any Underwriter or Underwriters shall fail or refuse to purchase Shares which it or they are obligated to purchase on the Closing Date and the aggregate number of Shares with respect to which such default occurs is more than one-tenth of the aggregate number of Shares which the Underwriters are obligated to purchase on the Closing Date and arrangements satisfactory to you and the Company for the purchase of such Shares by one or more non-defaulting Underwriters or other party or parties approved by you and the Company are not made within 36 hours after such default, this Agreement will terminate without liability on the part of any non-defaulting Underwriter or the Company. In any such case which does not result in termination of this Agreement, either you or the Company shall have the right to postpone the Closing Date, but in no event for longer than seven days, in order that the required changes, if any, in the Registration Statement and the Prospectus or any other documents or arrangements may be effected. Any action taken under this paragraph shall not relieve any defaulting Underwriter from liability in respect of any such default of any such Underwriter under this Agreement. The term "Underwriter" as used in this Agreement includes, for all purposes of this Agreement, any party not listed in Schedule I hereto who, with your approval and the approval of the Company, purchases Shares which a defaulting Underwriter agreed, but failed or refused, to purchase.

Any notice under this Section 12 may be given by telegram, telecopy or telephone but shall be subsequently confirmed by letter.

13. Termination of Agreement. This Agreement shall be subject to termination in your absolute discretion, without liability on the part of any Underwriter to the Company, by notice to the Company and the Attorneys-in-Fact, if prior to the Closing Date or any Option Closing Date (if different from the Closing Date and then only as to the Additional Shares), as the case may be, (i) trading in securities generally on the New York Stock Exchange, the American Stock Exchange or the Nasdaq National Market shall have been suspended or materially limited, (ii) a general moratorium on commercial banking activities in New York shall have been declared by

either federal or state authorities, or (iii) there shall have occurred any outbreak or escalation of hostilities or other international or domestic calamity, crisis or change in political, financial or economic conditions, the effect of which on the financial markets of the United States is such as to make it, in your judgment, impracticable or inadvisable to commence or continue the offering of the Shares at the offering price to the public set forth on the cover page of the Prospectus or to enforce contracts for the resale of the Shares by the Underwriters. Notice of such termination may be given by telegram, telecopy or telephone and shall be subsequently confirmed by letter.

14. Information Furnished by the Underwriters. The statements set forth in the last paragraph on the cover page, the stabilization legend on the inside front cover page and the statements in the first and third paragraphs under the caption "Underwriting" in any Prepricing Prospectus and in the Prospectus constitute the only information furnished by or on behalf of the Underwriters through you as such information is referred to in Sections 7(b) and 9 hereof.

15. Miscellaneous. Except as otherwise provided in Sections 5, 12 and 13 hereof, notice given pursuant to any provision of this Agreement shall be in writing and shall be delivered (i) if to the Company, at the office of the Company at 367 South Gulph Road, King of Prussia, Pennsylvania 19406, Attention: Alan B. Miller, Chairman of the Board, President and Chief Executive Officer, with a copy to Fulbright & Jaworski L.L.P., 666 Fifth Avenue, New York, New York 10103, Attention: Anthony Pantaleoni, Esq.; or (ii) if to you, as Representatives of the several Underwriters, care of Smith Barney Inc., 388 Greenwich Street, New York, New York 10013, Attention: Manager, Investment Banking Division, with a copy to Dewey Ballantine, 1301 Avenue of the Americas, New York, New York 10019, Attention: Frederick W. Kanner, Esq.

This Agreement has been and is made solely for the benefit of the several Underwriters, the Company, its directors, its officers who sign the Registration Statement and the controlling persons referred to in Section 9 hereof and, to the extent provided herein, their respective successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. Neither the term "successor" nor the term "successors and assigns" as used in this Agreement shall include a purchaser from any Underwriter of any of the Shares in his status as such purchaser.

16. Applicable Law; Counterparts. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed within the State of New York.

This Agreement may be signed in various counterparts which together constitute one and the same instrument. If signed in counterparts, this Agreement shall not become effective unless at least one counterpart hereof shall have been executed and delivered on behalf of each party hereto.

Please confirm that the foregoing correctly sets forth the agreement between the Company and the several Underwriters.

Very truly yours,

UNIVERSAL HEALTH SERVICES, INC.

By:

ALLAN B. MILLER

By:

Attorney-in-Fact

SMITH BARNEY INC.
BEAR STEARNS & CO. INC.
DILLON, READ & CO. INC.
DONALDSON, LUFKIN & JENRETTE
SECURITIES CORPORATION
J.P. MORGAN & CO.

As Representatives of the Several Underwriters

By: SMITH BARNEY INC.

By:

Managing Director

Confirmed as of the date first above mentioned on behalf of themselves and the other several Underwriters named in Schedule I hereto.

SCHEDULE I

UNIVERSAL HEALTH SERVICES, INC.

Underwriter	Number of Firm Shares
Smith Barney Inc.	
Bear Stearns & Co. Inc.	
Dillon, Read & Co. Inc.	
Donaldson, Lufkin & Jenrette Securities Corporation	
J.P. Morgan & Co.	
Total . . .	4,400,000

EXHIBIT 23.2

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We consent to the reference to our firm under the caption "Experts" in Amendment No. 1 to the Registration Statement (Form S-3) and related Prospectus of Universal Health Services, Inc. for the registration of 4,400,000 shares of Universal Health Services, Inc.'s Class B common stock, and to the incorporation by reference therein of our report dated October 24, 1994, with respect to the combined financial statements of Manatee Hospitals and Health Systems, Inc. included in Universal Health Services, Inc.'s Registration Statement (Form S-3, Registration No. 33-60287) filed with the Securities and Exchange Commission.

ERNST & YOUNG LLP

Tampa, Florida
May 30, 1996