

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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  
(State or other jurisdiction of  
incorporation or organization)

23-2077891  
(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, including zip code, and telephone  
number, including area code, of agent for service)

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

Anthony Pantaleoni, Esq.  
Fulbright & Jaworski L.L.P.  
666 Fifth Avenue  
New York, New York 10103  
(212) 318-3000

Daniel J. Zubkoff, Esq.  
Cahill Gordon & Reindel  
80 Pine Street  
New York, New York 10005  
(212) 701-3000

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: /X/

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. / /

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CALCULATION OF REGISTRATION FEE

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TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE PRICE PER UNIT(*)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(*)	AMOUNT OF REGISTRATION FEE
DEBT SECURITIES . . .	\$150,000,000	100%	\$150,000,000	\$51,724.14

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\*Estimated solely for the purpose of calculating the registration fee.

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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 THIS 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.

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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 such State.

SUBJECT TO COMPLETION, DATED JUNE 16, 1995

## PROSPECTUS

\$150,000,000

UNIVERSAL HEALTH SERVICES, INC.

DEBT SECURITIES  
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Universal Health Services, Inc. ("UHS") intends to issue from time to time its senior unsecured debt securities (the "Debt Securities") at an aggregate initial offering price not to exceed \$150,000,000 (or, if the principal of the Debt Securities is payable in a foreign currency, the equivalent thereof at the time of offering), which will be offered on terms to be determined at the time of sale. The accompanying Prospectus Supplement ("Supplement") sets forth the specific terms of the Series of Debt Securities (the "Series") in respect of which this Prospectus is being delivered, including the designation of the Debt Securities, the aggregate principal amount offered, the rate or rates of interest or the provisions for determining such rate or rates and the time of payment thereof, maturity, currency of payment, offering price, terms relating to redemption (whether mandatory, at the option of UHS or at the option of the holder) and information as to listing on any securities exchange.

The Debt Securities may be sold directly by UHS through agents designated by UHS from time to time or through underwriters or dealers designated by UHS from time to time. If any agents of UHS or any dealers or underwriters are involved in the sale of the Series of Debt Securities in respect of which this Prospectus is being delivered, the names of such agents, dealers or underwriters and any applicable agent's commission, dealer's purchase price or underwriter's discount are set forth in or may be calculated from the Supplement. The net proceeds to UHS from such sale will be the purchase price of such Series of Debt Securities less such commission in the case of an agent, the purchase price of such Series of Debt Securities in the case of a dealer or the public offering price of such Series of Debt Securities less such discount in the case of an underwriter and less, in each case, other attributable issuance expenses. See "Plan of Distribution" for indemnification arrangements for agents, dealers and underwriters. The underwriters for any offering may include:

Dillon, Read &amp; Co. Inc.

J.P. Morgan Securities Inc.

BA Securities, Inc.

Chemical Securities Inc.

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.

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SEE "RISK FACTORS" WHICH APPEARS ON PAGE 5 OF THIS PROSPECTUS FOR ADDITIONAL INFORMATION REGARDING THE COMPANY.  
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THIS PROSPECTUS MAY NOT BE USED TO CONSUMMATE SALES OF THE DEBT SECURITIES UNLESS ACCOMPANIED BY THE SUPPLEMENT.

The date of this Prospectus is June \_\_, 1995.

## 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 the 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 Annual Report on Form 10-K for the year ended December 31, 1994; and (ii) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.

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 Notes 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, King of Prussia, Pennsylvania 19406, telephone (610) 768-3300.

## General

The principal business of Universal Health Services, Inc. (together with its subsidiaries, the "Company") is owning and operating acute care hospitals, behavioral health centers, ambulatory surgery centers and radiation oncology centers. Presently, the Company operates 30 hospitals, consisting of 15 acute care hospitals and 15 behavioral health centers, in Arkansas, California, Florida, Georgia, Illinois, Louisiana, Massachusetts, Michigan, Missouri, Nevada, Pennsylvania, Texas and Washington. The Company, as part of its Ambulatory Treatment Centers Division owns outright, or in partnership with physicians, and operates or manages 24 surgery and radiation oncology centers located in 14 states.

The Company's strategy to enhance its profitability is to continue to provide high quality, cost-effective healthcare at each of its facilities. 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.

## Recent and Proposed Acquisitions and Development Activities

The Company has a letter of intent and an agreement for or has recently consummated a number of acquisitions. In November 1994, the Company acquired Edinburg Hospital, a 112-bed acute care hospital located in Edinburg, Texas, which is in close proximity to McAllen, Texas, for \$11.3 million and the assumption of liabilities totalling \$2.2 million. In addition, the Company has agreed to construct and has acquired the land for a 100-bed hospital in Edinburg. This acquisition and development of the new hospital enable the Company to enhance its market leadership in McAllen, where it currently operates the 428-bed McAllen Medical Center ("McAllen Medical Center"). McAllen is in the fourth fastest growing metropolitan statistical area ("MSA") in the nation. (Source: Claritas Business Information Systems ("Claritas"), a market research firm, Forecast 1995-2000).

In March 1995, the Company entered into an agreement with a subsidiary of Columbia/HCA Healthcare Corporation to exchange the operations and fixed assets of Westlake Medical Center, a 126-bed acute care hospital located in Westlake, California, and Dallas Family Hospital, a 104-bed acute care hospital in Dallas, Texas, and approximately \$45 million in cash, for Aiken Regional Medical Centers, a 225-bed medical center complex in Aiken, South Carolina. Aiken is the leading hospital in its market and with its acquisition, the Company will commence operations in South

Carolina. The transaction, which is subject to regulatory approval, is currently scheduled to close in the third quarter of 1995.

The Company has also entered into a letter of intent to purchase substantially all the assets of Manatee Memorial Hospital, a 512-bed acute care hospital, located in Bradenton, Florida, for \$141 million in cash. Pending closing, the Company is managing the hospital for its current owners pursuant to a management agreement. Manatee, like Aiken, is a state-of-the art facility and is in a new market for the Company with highly favorable demographics. The transaction, which is subject to regulatory approval, is currently expected to close in the third quarter of 1995.

In May 1995, the Company acquired Fuller Memorial Psychiatric Hospital, an 82-bed behavioral health center, for approximately \$3 million. Fuller, located in southeastern Massachusetts and in close proximity to two of the Company's other behavioral health centers and its eleven day-treatment clinics, will augment the Company's ability to serve additional patients in southeastern Massachusetts.

The Company is developing, with the participation of Howard Hughes Corporation, a medical complex including a 120-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, the major landowner in Summerlin, has granted to the Company an exclusive right to operate medical facilities in Summerlin. When completed, this facility will enhance the Company's market presence in Las Vegas, the center of the fastest growing MSA in the nation (Source: Claritas Forecast 1995-2000).

#### RISK FACTORS

Concentration of Revenues. Valley Hospital Medical Center in Las Vegas, Nevada ("Valley Hospital") contributed 18%, 19%, 16% and 16% of the Company's net revenues and 32%, 35%, 32% and 32% of the Company's earnings before interest, income taxes, depreciation, amortization, lease and rental expense and non-recurring transactions (EBITDAR), for the quarter ended March 31, 1995, and for the three years ended December 31, 1994, 1993 and 1992, respectively, excluding the effect of the special Medicaid reimbursements received at one of the Company's Texas acute care hospitals of \$3.3 million, \$12.4 million, \$13.5 million and \$29.8 million for the quarter ended March 31, 1995, and for the years ended December 31, 1994, 1993 and 1992, respectively (the "Special Medicaid Reimbursements"). On a pro forma basis, assuming that the acquisitions of Aiken Regional Medical Centers, Manatee Memorial Hospital and Edinburg Hospital (acquired November 1994), and the dispositions of Dallas Family Hospital and Westlake Medical Center occurred on January 1, 1994 (the "Adjustments") and excluding the Special Medicaid Reimbursements, Valley Hospital would have contributed 15% of the Company's net revenues for the three month period ended March 31, 1995, and the year ended December 31, 1994, and 26% and 28%, respectively, of the Company's EBITDAR for such periods.



McAllen Medical Center contributed 22%, 21%, 18% and 16% of the Company's net revenues and 36%, 35%, 32% and 24% of the Company's EBITDAR, for the quarter ended March 31, 1995, and for the years ended December 31, 1994, 1993 and 1992, respectively, excluding the Special Medicaid Reimbursements. On a pro forma basis, taking into account the Adjustments and excluding the Special Medicaid Reimbursements, McAllen Medical Center would have contributed 18% and 17% of the Company's net revenues for the three month period ended March 31, 1995, and the year ended December 31, 1994, respectively, and 28% of the Company's EBITDAR for each such period.

Assuming the Adjustments and excluding the Special Medicaid Reimbursements, Manatee Memorial Hospital would have contributed 13% of the Company's net revenues for the three month period ended March 31, 1995, and the year ended December 31, 1994, and 15% of the Company's EBITDAR for both such periods. See "The Company -- Recent and Proposed Acquisitions and Development Activities."

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 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. See "Business -- Competition."

Limits on Reimbursement. The Company derives a substantial portion of its net revenues from third-party payors, including the Medicare and Medicaid programs. See "Business -- Sources of Revenue." Changes in government reimbursement programs have resulted in limitations on the growth rates of the reimbursement programs in, 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. See "-- Healthcare Reform Legislation." 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 these changes will have on its operations and significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on the financial results of the Company's operations.

Healthcare 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. In 1993, President Clinton introduced a healthcare reform bill that included a number of measures that were broadly viewed as increasing the scope of government regulation of the healthcare industry. Key elements in the President's proposal and other healthcare reform proposals included various insurance market reforms, the requirement that businesses provide health insurance coverage for their employees, reductions or lesser increases in the future growth rate of Medicare and Medicaid reimbursement to providers and more stringent government cost controls. None of these proposals has been adopted. There continue to be efforts at the Federal level to introduce various insurance market reforms, expanded fraud and abuse and anti-referral legislation and further reductions in the growth rate of Medicare and Medicaid reimbursement. The House of Representatives and the Senate each recently passed bills which would limit the future rate of growth of the Medicare program from 10% annually to 7% annually and in the Medicaid program from 10% annually to 4% annually (as specified in the House of Representatives' plan). 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. See "Business -- Regulation and Other Factors."

Liability Insurance. For most of its hospitals, the Company is self-insured for its general liability risks for claims limited to \$5 million per occurrence and for its 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.

During 1994 and 1993, the Company purchased general and professional liability occurrence policies with commercial insurers for two of its acute care facilities and six of its behavioral health centers. These policies include coverage up to \$25 million per occurrence for the acute care hospitals, and from \$1 million to \$2 million per occurrence for the behavioral health centers, subject to certain aggregate limits, in each case without the payment of any deductible, for general and professional liability risks. Although the Company feels that it currently has adequate insurance coverage, the commercial policies are limited to one-year terms and require annual renegotiation or replacement. The Company has no assurance that it will be able to maintain such insurance in the future on terms acceptable to the Company.

Control By Principal Stockholder. Alan B. Miller, UHS' Chairman of the Board, President and Chief Executive Officer, controls approximately 88% of the general voting power of UHS. As such, Mr. Miller can elect the majority 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

Unless otherwise provided in the Supplement, the net proceeds from the sale of the Debt Securities offered by this Prospectus and the Supplement will be added to the Company's general funds and used for general corporate purposes. Until so utilized, it is expected that such net proceeds will be invested in interest bearing time deposits or short-term marketable securities.

In March 1995, the Company entered into an agreement with a subsidiary of Columbia/HCA Healthcare Corporation ("Columbia") to acquire the operations and fixed assets of Aiken Regional Medical Centers ("Aiken"), including Aiken Regional Medical Center, The Carolina Cancer Center and the Aurora Pavilion. The assets to be acquired include the real property and moveable equipment together with intangible assets and certain working capital accounts, excluding accounts receivable.

In exchange for Aiken, the Company agreed to transfer to Columbia the assets and operations of Westlake Medical Center and Dallas Family Hospital and approximately \$45 million in cash. Coincident with the Aiken transaction, the Company will acquire the property of Westlake Medical Center which it currently leases from Universal Health Realty Income Trust ("UHT"), in exchange for other property consisting of additional real estate assets currently owned by the Company but related to three acute care facilities currently owned by UHT and operated by the Company, which will be 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 will then be 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, will be acquired by Columbia.

The Company has entered into a letter of intent to purchase substantially all of the assets and operations of Manatee Memorial Hospital, a 512-bed acute care hospital located in Bradenton, Florida, for \$141 million in cash. The assets to be acquired include the real and personal property, working capital, and intangible assets.

In November 1994, the Company acquired the assets and operations of Edinburg Hospital, a 112-bed acute care hospital located in Edinburg, Texas, for approximately \$11.3 million and the assumption of liabilities totalling \$2.2 million.

The Pro Forma Consolidated Statements of Income were prepared as if the transactions occurred as of the beginning of the period presented. The Pro Forma Condensed Consolidated Balance Sheet was prepared as if the transactions occurred on March 31, 1995. 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 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. AND SUBSIDIARIES  
 PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET  
 MARCH 31, 1995  
 (UNAUDITED)  
 (IN THOUSANDS)

	THE COMPANY HISTORICAL -----	ACQUISITIONS AND DIVESTITURES (A) -----	PRO FORMA ADJUSTMENTS -----	THE COMPANY PRO FORMA -----
<b>ASSETS</b> -----				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 1,832	\$ -	\$ -	\$ 1,832
Accounts receivable, net	90,511	22,139		112,650
Other current assets	21,234	4,267		25,501
Deferred income taxes	18,491	-		18,491
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<b>TOTAL CURRENT ASSETS</b>	<b>132,068</b>	<b>26,406</b>		<b>158,474</b>
	-----			
Property and equipment, net	335,420	55,915	1,599 (B)	392,934
Other Assets:				
Excess of cost over fair value of assets acquired	37,572	-	112,933 (C)	150,505
Deferred income taxes	2,742	-	-	2,742
Deferred charges and other	31,430	891		32,321
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<b>TOTAL ASSETS</b>	<b>\$ 539,232</b>	<b>\$ 83,212</b>	<b>\$ 114,532</b>	<b>\$ 736,976</b>
	=====			
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> -----				
<b>CURRENT LIABILITIES:</b>				
Current maturities of debt	\$ 7,175	\$ (187)	\$ -	\$ 6,988
Accounts payable and accrued expenses	92,072	15,207	-	107,279
Federal and state taxes	17,228	-	3,000 (D)	20,228
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<b>TOTAL CURRENT LIABILITIES</b>	<b>116,475</b>	<b>15,020</b>	<b>3,000</b>	<b>134,495</b>
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Other non-current liabilities	74,831	532	(3,000) (D)	72,363
Long-term debt, net of current maturities	75,038	(1,957)	186,731 (E)	259,812
Common stockholders' equity	272,888	69,617	(72,199) (F)	270,306
	-----			
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 539,232</b>	<b>\$ 83,212</b>	<b>\$ 114,532</b>	<b>\$ 736,976</b>
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The accompanying notes and management's assumptions are an integral part of this statement.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES  
 PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT  
 FOR THE YEAR ENDED DECEMBER 31, 1994  
 (UNAUDITED)  
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	THE COMPANY HISTORICAL -----	ACQUISITIONS AND DIVESTITURES (a) -----	PRO FORMA ADJUSTMENTS -----	THE COMPANY PRO FORMA -----
Net Revenues	\$782,199	\$174,527	\$ (687) (b)	\$956,039
Operating charges:				
Operating expenses	298,108	73,808	2,000 (d) (2,187) (e)	371,729
Salaries and wages	286,297	49,507	-	335,804
Provision for doubtful accounts	58,347	15,721	-	74,068
Depreciation and amortization	42,383	7,374	6,043 (f)	55,800
Lease and rental expense	34,097	(1,307)	2,386 (g)	35,176
Interest expense, net	6,275	8,905	3,790 (h)	18,970
Non-recurring charges	9,763	-	-	9,763
Total expenses	----- 735,270	----- 154,008	----- 12,032	----- 901,310
Income before income taxes	46,929	20,519	(12,719)	54,729
Provision for income taxes	18,209	4,986	(2,027) (i)	21,168
Net income	----- \$ 28,720	----- \$ 15,533	----- \$ (10,692)	----- \$ 33,561
Earnings per common and common equivalent share	----- \$2.02			----- \$2.36
Weighted average number of common shares and equivalents	----- 14,389,000			----- 14,389,000

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

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

	THE COMPANY HISTORICAL -----	ACQUISITIONS AND DIVESTITURES (a) -----	PRO FORMA ADJUSTMENTS -----		THE COMPANY PRO FORMA -----
Net Revenues	\$220,715	\$43,342	\$(210) (500)	(b) (c)	\$263,347
Operating charges:					
Operating expenses	84,469	19,384	500 (1,053) (500)	(d) (e) (c)	102,800
Salaries and wages	78,021	10,947	-		88,968
Provision for doubtful accounts	17,185	3,946	-		21,131
Depreciation and amortization	11,310	1,433	1,650	(f)	14,393
Lease and rental expense	8,772	(482)	596	(g)	8,886
Interest expense, net	1,614	2,393	967	(h)	4,974
Non-recurring charges	-	-	-		-
Total expenses	201,371	37,621	2,160		241,152
Income before income taxes	19,344	5,721	(2,870)		22,195
Provision for income taxes	7,503	1,188	(98)	(i)	8,593
Net income	\$11,841	\$ 4,533	\$ (2,772)		\$13,602
Earnings per common and common equivalent share	\$0.85				\$0.98
Weighted average number of common shares and equivalents	13,942,000				13,942,000

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

## UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

NOTES AND MANAGEMENT'S ASSUMPTIONS TO UNAUDITED PRO FORMA  
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## BASIS OF PRESENTATION:

The accompanying pro forma financial statements have been prepared to reflect the completion of the Aiken, Manatee and Edinburg Transactions as described in the introductory note to these pro forma financial statements. The anticipated transactions will be accounted for as purchases by the Company when completed.

## ADJUSTMENTS TO PRO FORMA CONSOLIDATED BALANCE SHEET

(A) To reflect the historical cost basis of the assets acquired and liabilities assumed in the Aiken and Manatee Transactions, net of the assets and liabilities divested as part of the Aiken Transaction.

	THE MANATEE TRANSACTION		THE AIKEN TRANSACTION			NET ACQUISITIONS/ DIVESTITURES
	MANATEE HISTORICAL	ASSETS AND LIABILITIES NOT ACQUIRED	AIKEN HISTORICAL	ASSETS AND LIABILITIES NOT ACQUIRED	UHS ASSETS / LIABILITIES DIVESTED	
<b>ASSETS</b>						
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$16,247	\$(16,247)	\$1,537	\$(1,537)	\$ -	\$ -
Accounts receivable, net	22,237	-	15,431	(15,431)	(98)	22,139
Other current assets	4,651	(1,577)	2,321	-	(1,128)	4,267
<b>TOTAL CURRENT ASSETS</b>	<b>43,135</b>	<b>(17,824)</b>	<b>19,289</b>	<b>(16,968)</b>	<b>(1,226)</b>	<b>26,406</b>
Property and equipment, net	55,619	-	42,401	-	(42,105)	55,915
Excess of cost over fair value of assets acquired	-	-	7,946	(7,946)	-	-
Deferred charges and other	37,341	(36,456)	1,897	(1,855)	(36)	891
<b>TOTAL ASSETS</b>	<b>\$136,095</b>	<b>\$(54,280)</b>	<b>\$71,533</b>	<b>\$(26,769)</b>	<b>\$(43,367)</b>	<b>\$83,212</b>
<b>LIABILITIES AND EQUITY</b>						
<b>CURRENT LIABILITIES:</b>						
Current maturities of debt	\$1,737	\$(1,737)	\$ -	\$ -	\$ (187)	\$ (187)
Accounts payable and accrued expenses	18,425	(1,163)	5,990	(900)	(7,145)	15,207
<b>TOTAL CURRENT LIABILITIES</b>	<b>20,162</b>	<b>(2,900)</b>	<b>5,990</b>	<b>(900)</b>	<b>(7,332)</b>	<b>15,020</b>
Other non-current liabilities	532	-	-	-	-	532
Long-term debt, net	80,869	(80,869)	35,255	(35,255)	(1,957)	(1,957)
Equity	34,532	29,489	30,288	9,386	(34,078)	69,617
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$136,095</b>	<b>\$(54,280)</b>	<b>\$71,533</b>	<b>\$(26,769)</b>	<b>\$(43,367)</b>	<b>\$83,212</b>



(B) To adjust the carrying value of property and equipment acquired to fair value.

(C) To record the excess of cost over the fair value of net tangible assets acquired.

(D) To reclassify income taxes currently payable as a result of these transactions.

(E) To record the net borrowings necessary to finance the Aiken and Manatee Transactions.

(F) As a result of the Aiken Transaction, the Company will record an additional loss of approximately \$2.6 million resulting from the divestiture of certain assets at amounts less than their carrying values.

ADJUSTMENTS TO PRO FORMA CONSOLIDATED STATEMENTS OF INCOME:

(a) To reflect the historical revenues and operating expenses of the hospitals acquired and divested as part of the Manatee, Aiken and Edinburg transactions. The revenues and expenses of Edinburg reflected in the table below are for the period from January 1, 1994 through the date of acquisition (November 7, 1994). Operating results of Edinburg subsequent to the date of acquisition are included in UHS's historical financial statements for the year ended December 31, 1994 and for the three month period ended March 31, 1995.

YEAR ENDED DECEMBER 31, 1994

	THE AIKEN TRANSACTION					NET ACQUISITIONS/ DIVESTITURES
	MANATEE	AIKEN	WESTLAKE	DALLAS FAMILY	EDINBURG	
Net Revenues	\$119,552	\$84,012	\$(32,230)	\$(21,176)	\$24,369	\$174,527
Operating charges:						
Operating expenses	49,640	36,227	(12,977)	(9,812)	10,730	73,808
Salaries and wages	38,708	25,637	(14,138)	(9,122)	8,422	49,507
Provision for doubtful accounts	8,228	9,687	(3,083)	(1,816)	2,705	15,721
Depreciation and amortization	5,832	3,824	(2,071)	(1,360)	1,149	7,374
Lease and rental expense	1,607	1,445	(3,924)	(712)	277	(1,307)
Interest expense, net	7,520	337	-	-	1,048	8,905
Total operating expenses	111,535	77,157	(36,193)	(22,822)	24,331	154,008
Income (loss) before income taxes	8,017	6,855	(3,963)	(1,646)	38	20,519
Provision (benefit) for income taxes	-	2,816	(1,533)	(637)	-	4,986
Net income (loss)	\$ 8,017	\$ 4,039	\$(2,430)	\$(1,009)	\$ 38	\$15,533

THREE MONTHS ENDED MARCH 31, 1995

## THE AIKEN TRANSACTION

	MANATEE	AIKEN	WESTLAKE	DALLAS FAMILY	NET ACQUISITIONS/ DIVESTITURES
Net Revenues	\$34,240	\$22,289	\$(7,830)	\$(5,357)	\$43,342
Operating charges:					
Operating expenses	14,714	10,441	(3,534)	(2,237)	19,384
Salaries and wages	10,141	6,445	(3,468)	(2,171)	10,947
Provision for doubtful accounts	2,500	2,322	(456)	(420)	3,946
Depreciation and amortization	1,430	950	(554)	(393)	1,433
Lease and rental expense	349	317	(980)	(168)	(482)
Interest expense, net	2,333	60	-	-	2,393
Total operating expenses	31,467	20,535	(8,992)	(5,389)	37,621
Income (loss) before income taxes	2,773	1,754	(1,162)	(32)	5,721
Provision for income taxes	-	726	(450)	(12)	1,188
Net income	\$ 2,773	\$1,028	(\$ 712)	\$ (20)	\$4,533

	Year Ended December 31, 1994	Three Months Ended March 31, 1995
(b) To eliminate intercompany interest received by Manatee from an affiliate	(687)	(210)
(c) To eliminate management fees charged by UHS to Manatee	-	(500)
(d) To adjust operating expenses at Manatee for state and local taxes other than income taxes and other operating costs.	2,000	500
(e) To eliminate management fees paid to affiliates of Aiken and Manatee.	(2,187)	(1,053)

	Year Ended December 31, 1994 -----	Three Months Ended March 31, 1995 -----
(f) To adjust the historical depreciation and amortization expense of Manatee, Aiken and Edinburg based on average depreciable lives of 20 years for buildings and improvements, 5 years for equipment and 15 years for amortization of goodwill.	6,893	1,862
To adjust historical depreciation expense on the real property transferred to UHT as part of the Aiken Transaction.	(850) -----	(212) -----
Net increase in depreciation and amortization	6,043 =====	1,650 =====
(g) To record lease and rental expense relating to the assets transferred from UHS to UHT.	2,386	596
(h) To eliminate the historical interest expense at Aiken, Manatee and Edinburg.	(8,905)	(2,393)
To record interest on borrowings to finance the Aiken, Manatee and Edinburg Transactions using borrowings under the Company's commercial paper and revolving credit facilities at an average rate of 6.4% in 1994 and 7.1% in 1995	12,695 -----	3,360 -----
Net increase in interest expense.	3,790 =====	967 =====
(i) To adjust tax expense.	(2,027)	(98)

## SELECTED FINANCIAL AND OTHER DATA

The selected consolidated financial and other data presented below for, and as of the end of, each of the five years in the period ended December 31, 1994, 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, 1994 and 1995 have been prepared on the same basis as the audited 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,					THREE MONTHS ENDED MARCH 31, (UNAUDITED)	
	1990	1991	1992	1993	1994	1994	1995
	(DOLLARS IN THOUSANDS)						
<b>STATEMENT OF OPERATIONS:</b>							
Net revenues	\$674,982	\$691,619	\$731,227	\$761,544	\$782,199	\$194,432	\$220,715
Costs and expenses:							
Operating expenses	261,091	283,511	285,922	299,645	298,108	74,327	84,469
Salaries and wages	244,881	255,067	265,017	280,041	286,297	69,870	78,021
Provision for doubtful accounts	47,304	44,832	45,008	55,409	58,347	13,208	17,185
Depreciation and amortization	48,468	35,022	49,059	39,599	42,383	9,920	11,310
Lease and rental expense	31,982	34,479	33,854	34,281	34,097	8,491	8,772
Interest expense, net	22,589	8,150	11,414	8,645	6,275	1,822	1,614
Nonrecurring charges	----	----	----	8,828	9,763	----	----
Total operating charges	656,315	661,061	690,274	726,448	735,270	177,638	201,371
Income before income taxes	18,667	30,558	40,953	35,096	46,929	16,794	19,344
Provision for income taxes	7,060	10,239	20,933	11,085	18,209	6,507	7,503
Net income	\$11,607	\$20,319	\$20,020	\$24,011	\$28,720	\$10,287	\$11,841
Ratio of earnings to fixed charges(1)	1.5x	2.4x	2.7x	2.7x	3.6x	4.6x	5.4x
<b>OTHER FINANCIAL DATA:</b>							
EBITDA(2)	\$89,724	\$73,730	\$71,626	\$78,668	\$92,950	\$25,536	\$28,968
EBITDA/Interest	4.0x	9.0x	6.3x	9.1x	14.8x	14.0x	17.9x
Debt/EBITDA	2.4x	2.4x	1.7x	1.0x	1.0x	----	----
Capital expenditures:							
Acquisitions(3)	\$4,800	----	\$7,188	\$11,526	\$25,853	\$ ----	\$ ----
Other(4)	\$29,125	\$43,196	\$40,554	\$55,908	\$54,423	\$11,871	\$13,536
	DECEMBER 31,					MARCH 31, (UNAUDITED)	
	1990	1991	1992	1993	1994	1994	1995
	(DOLLARS IN THOUSANDS)						
<b>BALANCE SHEET DATA:</b>							
Working capital	\$50,836	\$14,345	\$33,716	\$15,500	\$14,607	\$26,485	\$15,593
Total assets	535,041	500,706	472,427	460,422	521,492	476,502	539,232
Long-term borrowings	205,646	127,235	114,959	75,081	85,125	78,844	75,038
Total debt	214,002	179,872	118,696	79,394	92,361	83,664	82,213
Total stockholders' equity	167,419	184,353	202,903	224,488	260,629	235,301	272,888

(1) The ratio of earnings to fixed charges is computed by dividing fixed charges into earnings from continuing operations before income taxes and extraordinary items plus fixed charges. Fixed charges include interest expense, interest element of lease rental expense, and amortization of debt issuance costs.

- (2) Represents earnings before interest expense, income taxes, depreciation, amortization and nonrecurring charges, excluding the additional revenues from the special Medicaid reimbursements received by one of the Company's acute care facilities which participates in the Texas Medical Assistance Program. The amounts excluded from each year are as follows: 1990-\$0; 1991-\$0; 1992-\$29.8 million; 1993-\$13.5 million; 1994-\$12.4 million. The amounts excluded from the quarters ended March 31, 1994 and 1995 are \$3.0 million and \$3.3 million, respectively.
- (3) Includes expenditures for acquisition of businesses and property held for lease and does not include assumed indebtedness and other liabilities.
- (4) Includes property and equipment additions, non-cash capital lease obligations and acquisition of properties previously leased.

MANAGEMENT'S DISCUSSION AND  
ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

THREE MONTHS OF 1995 COMPARED TO THREE MONTHS OF 1994 (CONSOLIDATED)

Net revenues increased 14% or \$26 million to \$220.7 million for the three months ended March, 31, 1995 as compared to the comparable prior year period due primarily to revenue growth at facilities owned during both periods and the acquisition of a 112-bed acute care hospital in November of 1994. Net revenues at hospital facilities owned during both periods increased 8% or \$15 million for the three months ended March 31, 1995 as compared to the comparable prior year period, excluding the additional revenues received from the special Medicaid reimbursements received by one of the Company's Acute Care facilities which participates 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, the hospital became eligible and received additional reimbursement from the state's disproportionate share hospital fund totaling \$3.3 million and \$3.0 million for the three months ended March 31, 1995 and 1994, respectively. These programs are scheduled to terminate in August 1995 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, EBITDAR increased 11% or \$3.8 million to \$37.8 million for the three months ended March 31, 1995 as compared to \$34.0 million in the comparable prior year period. Overall operating margins, excluding the special Medicaid reimbursements, were 17.3% for the three months ended March 31, 1995 as compared to 17.8% in the comparable prior year period.

Acute Care Services

Net revenues from the Company's acute care hospitals and ambulatory treatment centers accounted for 85% of the consolidated net revenues for each of the three-month periods ended March 31, 1995 and 1994. Net revenues at the Company's acute care hospitals owned during both periods increased 9% during the three months ended March 31, 1995 over the comparable prior year period, 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 4% increase in patient days and a 10% increase in admissions for the three months ended March 31, 1995 as compared to the comparable prior year period. Outpatient activity at the Company's acute care hospitals continues to increase as gross outpatient revenues at these hospitals increased 17% for the three months ended March 31, 1995 over the prior year period and continues to comprise 23% of the Company's acute care gross patient revenues. The increase is primarily the result of advances in medical technologies, which allow more services to be provided on an outpatient basis, 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 and the acquisition of several physician practices. To accommodate the

increased utilization of outpatient services, the Company has expanded or redesigned several of its outpatient facilities and services.

In addition, to take advantage of the trend toward increased outpatient services, the Company has continued to invest in the acquisition and development of ambulatory surgery and radiation oncology centers which have contributed to the increase in the Company's outpatient revenues. As of March 31, 1995, the Company operated or managed 22 outpatient treatment centers, which have contributed to the increase in the Company's outpatient revenues.

#### Behavioral Health Services

Net revenues from the Company's behavioral health services accounted for 14% and 15% of the consolidated net revenues for the three-month period ended March 31, 1995 and 1994, respectively. Net revenues at the Company's behavioral health centers owned during both periods increased 2% during the three months ended March 31, 1995 over the comparable prior year period due primarily to a 12% increase in admissions and a 1.4% increase in patient days. The average length of stay was 12.9 days in the 1995 quarter compared to 14.3 days in the 1994 quarter. The reduction in the average length of stay is a result of changing practices in the delivery of psychiatric care and continued cost containment pressures from payors which includes a greater emphasis on the utilization of outpatient services. Management of the Company has anticipated 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 centers increased 25% for the three months ended March 31, 1995 as compared to the comparable prior year quarter and now comprises 16% of behavioral health gross patient revenues as compared to 13% in the prior year quarter.

#### Other Operating Results

Depreciation and amortization expense increased \$1.4 million for the three months ended March 31, 1995 as compared to the comparable prior year period due primarily to the acquisition of a 112-bed acute care hospital in November of 1994 and additional depreciation expense related to capital expenditures and expansions made in the Company's acute care division.

Interest expense decreased 11% in the 1995 first quarter as compared to last year's first quarter due to lower average outstanding borrowings.

The effective tax rate was 39% in each of the quarters ended March 31, 1995 and 1994.

#### 1994 COMPARED TO 1993 AND 1992 (CONSOLIDATED)

Net revenues increased 3% (\$21 million) to \$782 million in 1994 and 4% (\$30 million) to \$762 million in 1993. Increases in both periods resulted primarily from revenue growth at facilities owned during each of the last three years, and the acquisition and development of ambulatory treatment centers, net of the revenue effects of facilities sold during these periods. Net revenues at hospital facilities owned during all three periods increased by 6.7% (\$46 million) in 1994 over 1993 and 7.2% (\$47

million) in 1993 over 1992, excluding, as discussed above, the additional revenues received from the special Medicaid reimbursements received by one of the Company's acute care facilities which participates 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, the hospital became eligible and received additional reimbursements totalling \$12.4 million in 1994, \$13.5 million in 1993 and \$29.8 million in 1992 from the state's disproportionate share hospital fund. As discussed above, these programs are scheduled to terminate in August 1995 and the Company cannot predict whether these programs will continue beyond the scheduled termination date. Net revenues at the Company's ambulatory treatment centers increased to \$17 million in 1994 from \$11 million in 1993 and \$2 million in 1992. The Company sold two hospitals in the fourth quarter of 1993, which reported net revenues of \$38 million in 1993 and \$48 million in 1992.

Excluding the revenue effects of the special Medicaid reimbursement programs, EBITDAR increased from \$106 million in 1992 to \$113 million in 1993 and to \$127 million in 1994. Overall operating margins improved from approximately 15% in both 1992 and 1993 to 16.5% in 1994. The improvement in the Company's overall operating margins in 1994 is due primarily to the divestiture of two low margin acute care facilities in 1993 and lower insurance expense in 1994 as compared to the previous two years.

#### Acute Care Services

Net revenues from the Company's acute care hospitals and ambulatory treatment centers accounted for 85%, 84% and 84% of consolidated net revenues in 1994, 1993 and 1992, respectively.

Net revenues at the Company's acute care hospitals owned during each of the last three years increased 9% in 1994 over 1993 and 7% in 1993 over 1992, 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 10% increase in inpatient admissions and a 7% increase in patient days in 1994 due primarily to additional capacity and expansion of service lines at two of the Company's larger facilities. Admissions and patient days at these facilities remained relatively unchanged during 1993 as compared to 1992. Outpatient activity at the Company's acute care hospitals increased as gross outpatient revenues at these hospitals increased 16% in 1994 over 1993 and 18% in 1993 over 1992 and comprised 24% of the Company's gross patient revenues in 1994 and 1993 and 23% in 1992. The increase was 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.

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 19.9%, 19.5% and 21.3% in 1994, 1993 and 1992, respectively. The margin improvement in 1994 over 1993 was primarily the result of lower insurance expense. The margin decline from 1992 to 1993 resulted primarily from deterioration in payor mix and general industry trends. 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 accounted for 14%, 15% and 15% of consolidated net revenues in 1994, 1993 and 1992, respectively. Net revenues at the Company's behavioral health centers owned during each of the last three years decreased 7% in 1994 as compared to 1993 due primarily to a reduction in patient days. Despite a 12% increase in admissions in 1994, patient days decreased 3% due to a reduction in the average length of stay to 13.8 days in 1994 from 15.9 days in 1993. The reduction in the average length of stay was a result of changing practices in the delivery of psychiatric care and continued cost containment pressures from payors which includes a greater emphasis on the utilization of outpatient services. Net revenues at these hospitals increased 6% in 1993 as compared to 1992 due to a 17% increase in admissions offset by a reduction in the average length of stay to 15.9 days in 1993 from an average stay of 20.0 days in 1992. The shift to outpatient care is reflected in higher revenues from outpatient services, as gross outpatient revenues at the Company's behavioral health centers increased 17% in 1994 over 1993 and 39% in 1993 over 1992 and comprised 15% of psychiatric gross patient revenues in 1994 as compared to 13% in 1993 and 10% in 1992.

Operating margins (EBITDAR) at the facilities owned during all three years were 15.8% in 1994, 21.5% in 1993 and 17.6% in 1992. The decrease in the profit margin in 1994 as compared to 1993 was primarily caused by the decrease in the facility's net revenues 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 1994, the Company recorded \$9.8 million of nonrecurring charges which includes a \$4.3 million loss on the anticipated disposal of two acute care facilities. The Company expects to exchange these facilities, along with cash, for a 225-bed medical complex. See "The Company--Recent and Proposed Acquisitions and Development Activities." Also included in nonrecurring charges is a \$2.8 million write-down in the carrying value of a behavioral health center owned by the Company and leased to an unaffiliated third party which is currently in default under the terms of the lease agreement, a \$1.4 million write down recorded against the book value of the real property of a behavioral health center, and \$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 \$2.8 million in 1994 over 1993 due primarily to \$1.9 million in such expenses related to the Company's acquisition of ambulatory treatment centers and the increased depreciation expense related to capital expenditures and expansions made in the Company's acute care division. Depreciation and amortization expense decreased approximately \$9.5 million in 1993 as compared to 1992, due primarily to a \$13.5 million amortization charge in 1992 resulting from the revaluation of certain goodwill balances. Partially offsetting this decrease was a \$2.4

million increase in depreciation and amortization expense related to the Company's acquisitions of outpatient treatment centers.

Interest expense decreased 27% in 1994 as compared to 1993 and 24% in 1993 as compared to 1992 due to lower average outstanding borrowings.

The effective tax rate was 39%, 32% and 51%, in 1994, 1993 and 1992, respectively. 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. The reduction in the effective tax rate in 1993 as compared to 1992, in addition to the reduction in the state tax provision mentioned above, was attributable to the above mentioned \$13.5 million goodwill amortization recorded in the 1992 period, which was not deductible for income tax purposes.

#### 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 \$24.1 million during the first three months of 1995, and \$60.6 million, \$84.6 million and \$81.7 million for the 1994, 1993 and 1992 fiscal years, respectively. The \$24.0 million decrease in 1994 as compared to 1993 was primarily attributable to an increase in the number of days of revenues in accounts receivable, acceleration in the payment of income taxes and an increase in the payments made in settlement of the Company's self-insurance reserves. The unfavorable change in the outstanding accounts receivable was caused by a temporary decline in cash collections due to information system conversions at the Company's hospitals. During each of the past three years, the net cash provided by operating activities substantially exceeded the scheduled maturities of long-term debt.

The Company has entered into an agreement to acquire a 225-bed medical complex in Aiken, South Carolina and a letter of intent to acquire a 512-bed acute care hospital located in Bradenton, Florida in exchange for aggregate consideration of approximately \$186 million in cash and two acute care facilities. In addition, in connection with the acquisition of Edinburg Hospital in 1994, the Company will invest at least an additional \$30 million over a ten-year period to renovate the existing facility and construct an additional facility within four years. The Company plans to spend approximately \$55 million over a four-year period in connection with the development

of a medical complex in Summerlin, Nevada. See "The Company -- Recent and Proposed Acquisitions and Development Activities." Excluding expenditures related to acquisitions, expansions and new services, the Company believes it will make capital expenditures of approximately \$30 million in each of 1995 and 1996.

The Company expects to finance all capital expenditures and acquisitions with internally generated funds and borrowed funds. Borrowed funds may be obtained through the Company's existing commercial paper program, under the Company's unsecured revolving credit agreement or pursuant to the sale of debt securities which may be offered hereby. The Company's commercial paper program provides for loans, secured against patient accounts receivable, of up to \$50 million at any time outstanding. The Company's unsecured revolving credit agreement, which expires on March 31, 2000, provides, subject to certain conditions, for \$225 million of borrowing capacity, until March 31, 1998, \$210 million until March 31, 1999 and \$185 million until March 31, 2000. As of March 31, 1995, the Company had approximately \$236 million of unused borrowing capacity under its commercial paper program and revolving credit facility. To reduce the impact of changes in interest rates on the cost of its debt, the Company, from time to time, enters into interest rate swap agreements. Currently, the Company has one such agreement with a notional principal amount of \$10 million. The Company also entered into forward starting interest rate swaps in the notional principal amount of \$100 million to hedge the underlying treasury component of the interest rate on a portion of the debt securities which may be offered hereby. The Company expects to unwind these swaps on the issue date of such debt securities resulting in an effective treasury rate component of approximately 7.15%.

#### HEALTHCARE 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. See "Business - Regulation and Other Factors." Under these systems, hospitals bear the financial risk of providing healthcare services since they receive 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.

## General

The principal business of the Company is owning and operating acute care hospitals, behavioral health centers, ambulatory surgery centers and radiation oncology centers. Presently, the Company operates 30 hospitals, consisting of 15 acute care hospitals and 15 behavioral health centers, in Arkansas, California, Florida, Georgia, Illinois, Louisiana, Massachusetts, Michigan, Missouri, Nevada, Pennsylvania, Texas and Washington. The Company, as part of its Ambulatory Treatment Centers Division owns outright, or in partnership with physicians, and operates or manages 24 surgery and radiation therapy 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.

## BUSINESS STRATEGY

The Company's strategy to enhance its profitability is to continue to provide high quality, cost-effective healthcare at each of its facilities. Key elements of the Company's strategy are:

- to establish and maintain market leadership positions in small and medium-sized markets with favorable demographics;
- to develop or participate in the leading integrated healthcare delivery system in each of its hospital's markets;
- to develop and maintain strong relationships with physicians;
- to maintain a low cost structure while providing high quality care; and
- to 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, by improving and increasing the services offered by the hospital and by 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 is 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 120-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 428-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 plans to further expand its presence in the McAllen market by building a new 100-bed acute care hospital in Edinburg and converting the existing property to a nursing and rehabilitation facility.

The Company's planned acquisitions of Aiken Regional Medical Centers and Manatee Memorial Hospital will, if completed, provide the Company with two market leaders in markets with favorable demographics. Aiken, a 225-bed medical center complex located in Aiken, South Carolina, is the only hospital located in Aiken County, South Carolina. In addition, to acquire Aiken, the Company is exchanging Dallas Family Hospital and Westlake Medical Center, two hospitals which are not leaders in their markets and which the Company has been unable to link to their respective market leaders. Manatee, a 512-bed acute care hospital, is one of two hospitals in Manatee County, Florida. See "Business-Operations."

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 delivery systems by responding to community needs and developing new services. In Las Vegas, for example, 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. See "The Company - Recent and Proposed Acquisitions and Development Activities."

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 eleven 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 devoted substantial management effort and resources to establishing and maintaining such relationships and to fostering a physician-friendly culture at each of its hospitals to better serve the needs of patients. 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 serve the dual purposes of developing and maintaining strong relationships with physicians and better serving 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 100,000 covered lives. In McAllen, the Company is pursuing a plan whereby McAllen Medical Center and Edinburg Hospital will be transferred to a partnership of which the staff physicians will own up to 5%.

#### Maintain a Low Cost Structure While Providing High Quality Care

The Company has taken steps to create a low cost structure and believes its current cost structure 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 service provided to the patients. 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 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 given by the United States Senate to Valley Hospital Medical Center, (ii) Keystone Center, Chalmette Medical Center, Turning Point Hospital, HRI Hospital and The Harbour 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.

#### 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. 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 Company's planned acquisition of Manatee Memorial Hospital, the Company will derive the majority of its revenue from Valley Hospital, McAllen Medical Center and Manatee Memorial Hospital. Following is a brief discussion of these facilities and their respective geographic areas:

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 Special Medicaid Reimbursements, Valley Hospital would have contributed 15% of the Company's net revenues for the three month period ended March 31, 1995, and the year ended December 31, 1994, and 26% and 28%, respectively, 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 120-bed acute care hospital. Howard Hughes Corporation has granted to the Company the exclusive right to operate medical facilities in Summerlin. See "The Company -- Recent and Proposed Acquisitions and Development Activities."

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 428-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 Special Medicaid Reimbursements, McAllen Medical Center would have contributed 18% and 17% of the Company's net revenues for the three month period ended March 31, 1995, and the year ended December 31, 1994, respectively, and 28% of the Company's EBITDAR for each such period.

The Company has recently acquired Edinburg Hospital, 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 plans to further expand its presence in the McAllen market by building a new 100-bed acute care hospital in Edinburg and converting the existing property to a nursing and rehabilitation facility.

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 has entered into a letter of intent to acquire Manatee Memorial Hospital ("Manatee"), a 512-bed facility which is located in the County. Until the closing, the Company is managing Manatee for its current owners.

The hospital, which has a location which will benefit from the continuing eastern expansion of the County, 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 Special Medicaid Reimbursements, Manatee would have contributed 13% of the Company's net revenues for the three month period ended March 31, 1995, and the year ended December 31, 1994, and 15% of the Company's EBITDAR for both such periods.

#### 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 existing and pending facilities:

#### ACUTE CARE HOSPITALS

NAME OF FACILITY -----	LOCATION -----	NUMBER OF BEDS -----	INTEREST -----
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
McAllen Medical Center(1)	McAllen, Texas	428	Leased
Northern Nevada Medical Center(3)	Sparks, Nevada	150	Owned
River Parishes Hospitals(4)	LaPlace and Chalmette, Louisiana	216	Leased/Owned
Universal Medical Center	Plantation Florida	202	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
Aiken Regional Medical Centers(5)	Aiken, South Carolina	225	Acquisition Pending
Manatee Memorial Hospital(6)	Bradenton, Florida	512	Acquisition Pending

## 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
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
HRI Hospital	Brookline, Massachusetts	68	Owned
KeyStone Center(7)	Wallingford, Pennsylvania	84	Owned
La Amistad Residential Treatment Center	Maitland, Florida	56	Owned
Meridell Achievement Center(1)	Austin, Texas	114	Leased
The Pavilion	Champaign, Illinois	46	Owned
River Crest Hospital	San Angelo, Texas	80	Owned
River Oaks Hospital	New Orleans, Louisiana	126	Owned
Turning Point Hospital(7)	Moultrie, Georgia	59	Owned
Two Rivers Psychiatric Hospital	Kansas City, Missouri	80	Owned

## AMBULATORY SURGERY CENTERS

NAME OF FACILITY(9) -----	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

## RADIATION ONCOLOGY CENTERS

NAME OF FACILITY -----	LOCATION -----
Auburn Regional Center for Cancer Care	Auburn, Washington
Bowling Green Radiation Oncology Associates(8)	Bowling Green, Kentucky
Capital Radiation Therapy Center(8)	Frankfort, Kentucky
Columbia Radiation Oncology	Washington, D.C.
Danville Radiation Therapy Center(8)	Danville, Kentucky
Glasgow Radiation Oncology Associates(8)	Glasgow, Kentucky
Madison Radiation Oncology Associates(10)	Madison, Indiana
McAllen Medical Center Cancer Institute	McAllen, Texas
Regional Cancer Center at Wellington	West Palm Beach, Florida
Southern Indiana Radiation Therapy(10) -----	Jeffersonville, Indiana

- (1) Real property leased from UHT.
- (2) Real property leased with an option to purchase.
- (3) General partnership interest in limited partnership.
- (4) Includes Chalmette Hospital, a 114-bed rehabilitation facility. The Company owns the LaPlace real property and leases the Chalmette real property from UHT.
- (5) The Company has entered into an agreement to exchange the operations and fixed assets of Westlake Medical Center, a 126-bed acute care facility in Westlake, California, and Dallas Family Hospital, a 104-bed hospital in Dallas, Texas for Aiken Regional Medical Centers. The real property of Westlake is currently leased from UHT. See "The Company - Recent and Proposed Acquisitions and Development Activities."
- (6) Managed Hospital. The Company has executed a letter of intent to acquire this facility. See "The Company - Recent and Proposed Acquisitions and Development Activities."
- (7) Addictive disease facility.
- (8) Managed Facility. A partnership, in which the Company is the general partner, owns the real property.
- (9) 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.
- (10) 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 for the years indicated, excluding information relating to hospitals no longer owned by the Company as of December 31, 1994. 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. 1994 (Pro forma) assumes the effect of the Adjustments as if they occurred on January 1, 1994.

	1990 ----	1991 ----	1992 ----	1993 ----	1994 ----	1994 (PRO ----- FORMA) -----
Average Licensed Beds						
Acute Care Hospitals . . .	2,292	2,292	2,292	2,425	2,491	2,998
Behavioral Health Centers .	1,155	1,162	1,172	1,134	1,137	1,137
Average Available Beds (1)						
Acute Care Hospitals . . .	1,980	1,980	1,980	2,108	2,177	2,580
Behavioral Health Centers .	1,151	1,156	1,115	1,132	1,137	1,137
Hospital Admissions						



	1990	1991	1992	1993	1994	1994 (PRO FORMA)
	----	----	----	----	----	----- ----- -----
Acute Care Hospitals . . .	67,472	70,820	71,042	72,578	78,588	96,296
Behavioral Health Centers .	8,437	9,520	9,929	11,627	12,964	12,964
Average Length of Patient Stay (Days)						
Acute Care Hospitals . . .	5.6	5.5	5.4	5.3	5.2	5.3
Behavioral Health Centers .	25.5	22.9	20.0	15.8	13.8	13.8
Patient Days (2)						
Acute Care Hospitals . . .	374,896	387,641	385,652	385,863	409,091	512,372
Behavioral Health Centers .	215,439	218,061	198,116	184,264	179,238	179,238
Occupancy Rate (3):						
Licensed Beds						
Acute Care Hospitals . . .	45%	46%	46%	44%	45%	47%
Behavioral Health Centers .	51%	51%	46%	45%	43%	43%
Available Beds						
Acute Care Hospitals . . .	52%	54%	53%	50%	51%	54%
Behavioral Health Centers .	51%	52%	49%	45%	43%	43%

- (1) "Average Available Beds" is the number of beds which are actually in service at any given time for immediate patient use with the necessary equipment and staff available for patient care. A hospital may have appropriate licenses for more beds than are in service for a number of reasons, including lack of demand, incomplete construction, and anticipation of future needs.
- (2) "Patient Days" is the aggregate sum for all patients of the number of days that hospital care is provided to each patient.
- (3) "Occupancy Rate" is calculated by dividing average patient days (total patient days divided by the total number of days in the period) by the number of average beds, either available or licensed.

#### 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 tables show approximate percentages of gross revenue derived by the Company's acute care hospitals and behavioral health centers owned as of

December 31, 1994 since their respective dates of acquisition by the Company from third party sources and from all other sources during the five years ended December 31, 1994. 1994 (Pro forma) assumes the effect of the Adjustments as if they occurred on January 1, 1994.

PERCENTAGE OF GROSS REVENUES OF  
ACUTE CARE HOSPITALS

	1990	1991	1992	1993	1994	1994 (PRO FORMA)
	----	----	----	----	----	-----
Third Party Payors:						
Blue Cross . . . . .	0.9%	1.4%	0.6%	0.7%	2.3%	2.0%
Medicare . . . . .	43.2%	44.4%	44.3%	43.8%	41.7%	43.6%
Medicaid . . . . .	7.0%	8.5%	11.0%	12.0%	12.8%	13.0%
Other Sources (including patients and private insurance carriers)	48.9%	45.7%	44.1%	43.5%	43.2%	41.4%
	-----	-----	-----	-----	-----	-----
Total: . . . . .	100%	100%	100%	100%	100%	100%
	-----	-----	-----	-----	-----	-----

PERCENTAGE OF GROSS REVENUES OF  
BEHAVIORAL HEALTH CENTERS

	1990	1991	1992	1993	1994	1994 (PRO FORMA)
	----	----	----	----	----	-----
Third Party Payors:						
Blue Cross . . . . .	13.1%	11.3%	10.1%	8.7%	6.7%	6.7%
Medicare . . . . .	14.6%	17.6%	20.9%	22.1%	25.2%	25.2%
Medicaid . . . . .	9.3%	4.8%	5.4%	14.2%	20.0%	20.0%
Other Sources (including patients and private insurance carriers)	63.0%	66.3%	63.6%	55.0%	48.1%	48.1%
	-----	-----	-----	-----	-----	-----
Total: . . . . .	100%	100%	100%	100%	100%	100%
	-----	-----	-----	-----	-----	-----

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. The Company does not record net revenue by payor other than for Medicare and Medicaid. 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 39%, 43%, 44% and 46% of net patient revenues for the years 1992, 1993, 1994 and 1994 (Pro forma), respectively, excluding the Special Medicaid Reimbursements.

## MEDICAL STAFF AND EMPLOYEES

The Company's hospitals are staffed by licensed physicians who have been admitted to the medical staff of individual hospitals. With a few exceptions, physicians are not employees of the Company's hospitals and members of the medical staffs of the Company's hospitals also serve on the medical staffs of hospitals not owned by the Company and may terminate their affiliation with the Company's hospitals at any time. Each of the Company's hospitals is managed on a day-to-day basis by a managing director employed by the Company. In addition, a Board of Governors, including members of the hospital's medical staff, governs the medical, professional and ethical practices at each hospital. The Company's facilities had approximately 10,000 employees at June 1, 1995, of whom 7,500 were employed full-time.

614 of the Company's employees at four of its hospitals are unionized. At Valley Hospital, unionized employees belong to the Culinary Workers and Bartenders Union and the International Union of Operating Engineers. Registered nurses at Auburn General Hospital located in Washington State, are represented by the Washington State Nurses Association, the practical nurses at Auburn are represented by the United Food and Commercial Workers and licensed practical nurses at Auburn are represented by the Service Employees International Union, Local 6. In addition, at Auburn, the technical employees are represented by the United Food and Commercial Workers, and the service employees are represented by the Service Employees International Union. The registered nurses, licensed practical nurses, certain technicians and therapists, and housekeeping employees at HRI Hospital in Boston are represented by the Service Employees International Union. All full-time and regular part-time professional employees of La Amistad Residential Treatment Center in Maitland, Florida are represented by the United Nurses of Florida/United Health Care Employees Union. The Company believes that its relations with its employees are satisfactory.

## COMPETITION

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



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

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

The deficit-reduction legislation passed by Congress in 1987 limits the increases in PPS reimbursement based on the rate of inflation and the location of hospitals. Psychiatric hospitals, which are exempt from PPS, are cost reimbursed by the Medicare program, but are subject to a per discharge limitation, calculated based on the hospital's first full year in the Medicare program. Capital related costs are exempt from this limitation.

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

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

Within certain limits, a hospital can manage its costs, and, to the extent this is done effectively, a hospital may benefit from the DRG system. However, many hospital operating costs are incurred in order to satisfy licensing laws, standards of the Joint Commission on the Accreditation of Healthcare Organizations and quality of care concerns. In addition, hospital costs are affected by the level of patient acuity, occupancy rates and local physician practice patterns, including length of stay

judgments and number and type of tests and procedures ordered. A hospital's ability to control or influence these factors which affect costs is, in many cases, limited.

There have been additional proposals either proposed by the Administration or in Congress to reduce the funds available for the Medicare and Medicaid programs and to change the method by which hospitals are reimbursed for services provided to Medicare and Medicaid patients, including free indigent care. The House of Representatives and the Senate each recently passed bills which would limit the future rate of growth of the Medicare program from 10% annually to 7% annually and in the Medicaid Program from 10% annually to 4% annually (under the House of Representatives' plan). In addition, state governments may, in the future, reduce funds available under the Medicaid programs which they fund in part or impose additional restrictions on the utilization of hospital services. A number of legislative initiatives were proposed in 1994, and others may be proposed again in 1995, which if enacted would result in major changes in the healthcare system, nationally and/or at the state level. Several of these proposals limit the rate of increase in spending for Medicare and other healthcare costs as part of overall deficit reduction measures. The Company is unable to predict which bill, if any, will be adopted, or the ultimate impact its adoption would have on the Company; however, new legislation, if passed, could have a material adverse effect on the Company's future revenues.

In addition to federal health reform efforts, several states have adopted or are considering healthcare reform legislation. Several states are planning to consider wider use of managed care for their Medicaid populations and providing coverage for some people who presently are uninsured. In Texas, a law was recently 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. A number of other states are considering the enactment of managed care initiatives designed to provide low-cost coverage. The Company currently operates two behavioral health centers with a total of 186 beds in Massachusetts, which has mandated hospital rate-setting. The Company also operates three hospitals containing an aggregate of 378 beds, and manages, and has agreed to acquire, one hospital with 512 beds, in Florida that are subject to a mandated form of rate-setting if increases in hospital revenues per admission exceed certain target percentages. The Company does not believe that such regulation has had a material adverse effect on its operations.

Pursuant to Federal legislation, in general, the Federal government is required to match state funds applied to state Medicaid programs. Several states have initiated programs under which certain hospital providers are taxed to generate Medicaid funds which must be matched by the Federal government. New legislation passed by Congress on November 27, 1991, limits each state's use of provider taxes after 1994. State programs involving provider taxes in which UHS' hospitals are participants are in place in Texas, Louisiana, Missouri, Nevada and Washington. Included in the Company's 1994 financial results is revenue attributable to these programs, some of which expired in 1994. The Company cannot predict whether the remaining programs will continue beyond the scheduled termination dates.

Under the Omnibus Budget Reconciliation Act of 1993 ("OBRA"), enacted by Congress in late 1993, and effective January 1, 1995, physicians are precluded from

referring Medicare and Medicaid patients for a wide range of services where the physician has an ownership interest or investment interest in, or compensation arrangement with, an entity that provides such services. The legislation includes certain exceptions including, for example, where the referring physician has an ownership interest in a hospital as a whole or an ambulatory surgery center if the physician performs services at the center. In addition, all Medicare providers and suppliers are subject to certain reporting and disclosure requirements.

In 1991, 1992 and 1993, the Inspector General of the Department of Health and Human Services ("HHS") issued regulations which provide for "safe harbors"; if an arrangement or transaction meets each of the stipulations established for a particular safe harbor, the arrangement will not be subject to challenge by the Inspector General. If an arrangement does not meet the safe harbor criteria, it will be analyzed under its particular facts and circumstances to determine whether it violates the Medicare anti-kickback statute which prohibits, in general, fraudulent and abusive practices, and enforcement action may be taken by the Inspector General. In addition to the investment interests safe harbor, other safe harbors include space rental, equipment rental, personal service/management contracts, sales of a physician practice, referral services, warranties, employees, discounts and group purchasing arrangements, among others.

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

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

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

The Social Security Act and regulations thereunder contain numerous provisions which affect the scope of Medicare coverage and the basis for reimbursement of Medicare providers. Among other things, this law provides that in states which have executed an agreement with the Secretary of the Department of Health and Human Services (the "Secretary"), Medicare reimbursement may be denied with respect to depreciation, interest on borrowed funds and other expenses in connection with capital expenditures which have not received prior approval by a designated state health

planning agency. Additionally, many of the states in which the Company's hospitals are located have enacted legislation requiring certificates of need ("CON") as a condition prior to hospital capital expenditures, construction, expansion, modernization or initiation of major new services. Failure to obtain necessary state approval can result in the inability to complete an acquisition or change of ownership, the imposition of civil or, in some cases, criminal sanctions, the inability to receive Medicare or Medicaid reimbursement or the revocation of a facility's license. The Company has not experienced and does not expect to experience any material adverse effects from those requirements.

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

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

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

#### LIABILITY INSURANCE

For most of its hospitals, the Company is self-insured for its general liability risks for claims limited to \$5 million per occurrence and for its 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. During 1994 and 1993, the Company purchased general and professional liability occurrence policies with commercial insurers for two of its acute care facilities and six of its behavioral health

centers. These policies include coverage up to \$25 million per occurrence for the acute care hospitals, and from \$1 million to \$2 million per occurrence for the behavioral health centers, subject to certain aggregate limits, in each case without the payment of any deductible, for general and professional liability risks. Although the Company feels that it currently has adequate insurance coverage, the commercial policies are limited to one-year terms and require annual renegotiation or replacement. The Company has no assurance that it will be able to maintain such insurance in the future on terms acceptable to the Company.

#### RELATIONS WITH UNIVERSAL HEALTH REALTY INCOME TRUST

The Company serves as advisor to Universal Health Realty Income Trust ("UHT"), which leases to the Company the real property of 8 facilities operated by the Company. In addition, UHT holds interests in properties owned by unrelated companies. The Company receives a fee for its advisory services based on the value of UHT's assets. In addition, certain of the directors and officers of the Company serve as trustees and officers of UHT. As of June 1, 1995, the Company owned 7.7% of UHT's outstanding shares and the Company currently has an option to purchase UHT shares in the future at fair market value to enable it to maintain a 5% interest.

#### FINANCING ARRANGEMENTS

The following summarizes the material long-term indebtedness of the Company. This summary is not a complete description of such indebtedness. Copies of the material agreements relating to such indebtedness have been filed with the Commission and the descriptions set forth below are qualified in their entirety by reference to such agreements.

##### Commercial Paper Program

The Company has a loan facility pursuant to which it may borrow on a non-recourse basis up to \$50 million, secured by patients accounts receivable. The Company has sufficient accounts receivable to support a larger program, and, upon the mutual consent of the Company and its participating lenders, the commitment can be increased. A commitment fee of 0.76% is required on this facility. At May 31, 1995, \$32,385,000 was available for borrowing under the facility. The Company's average interest rate, including the commitment fee, over the five months ended May 31, 1995 was 7.34%

##### Revolving Credit Agreement

The Company has a \$225 million unsecured non-amortizing revolving credit agreement with Morgan Guaranty Trust Company of New York, as agent, and certain other lenders. Obligations under this agreement are guaranteed by UHS' subsidiaries. The agreement provides for an initial commitment of \$225 million which will be reduced to \$210 million on March 31, 1998, and to \$185 million on March 31, 1999. The agreement will expire on March 31, 2000. Loans under the agreement bear interest at a rate equal to, at the option of the Company, 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 1.00%. A commitment fee ranging from 0.125% to 0.375% is required for the unused portion of the commitment. The margin over the certificate of deposit, the margin over the Eurodollar rate and the commitment fee are based on leverage and coverage ratios. In addition, the agreement contains a provision whereby half of the net consideration in excess of \$25 million from the disposition of assets will be used to reduce the commitment. At May 31, 1995, \$225 million was available for borrowing under the agreement and the commitment will be reduced to \$125 million in the event that the acquisition of Manatee Memorial Hospital is not consummated by December 31, 1995.

The agreement limits the Company's ability to incur indebtedness, to declare or pay dividends, to exceed capital expenditure limits, to prepay subordinated debt, to purchase or redeem the Company's stock, to use proceeds of the loans other than for its general corporate purposes, to make (additional) acquisitions, to create or incur liens on assets, or to merge, consolidate, reorganize, and to liquidate. Also, the agreement requires that the Company meet certain financial tests, and provides the lenders with the right to terminate the commitment and to require the payment of all of the amounts outstanding under the agreement in the event the Company fails to pay amount when due, the Company makes material misrepresentations in its warranties or representations, the Company commences a voluntary case in bankruptcy or has an involuntary case in bankruptcy commenced against it, any person acquires 25% or more of its voting common stock, or the Company fails to perform any covenant pursuant to the agreement.

Other

The Company has an aggregate of \$21,724,000 in outstanding revenue bonds at varying maturities through 2015 secured by liens on the property of four facilities. Interest is at floating rates which ranged from 5.5% to 6.9% in 1994 and one bond is at a fixed interest rate of 8.3%. The Company also has various mortgages, notes payable and demand credit facilities which aggregated approximately \$13,300,000 at May 31, 1995.

#### DESCRIPTION OF DEBT SECURITIES

The Debt Securities will be issued under the indenture dated as of July \_\_, 1995 (the "Indenture"), between UHS and PNC Bank, National Association, as Trustee (the "Trustee"). A copy of the form of Indenture has been filed as an exhibit to the Registration Statement of which this Prospectus is a part. The summaries of certain provisions of the Indenture hereunder do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all of the provisions of the Indenture, including the definitions therein of certain terms and those terms made part of the Indenture by reference to the Trust Indenture Act of 1939 as in effect on the date of the Indenture. Certain capitalized terms used below and not defined have the respective meanings assigned thereto in the Indenture.

The Indenture provides for the issuance by UHS from time to time of its Debt Securities in one or more Series. The Indenture does not limit the amount of Debt Securities which may be issued thereunder, and provides that the specific terms of any Series of Debt Securities shall be set forth in, or determined pursuant to, an Authorizing Resolution and/or a supplemental indenture, if any, relating to such Series.

The specific terms of the Series of Debt Securities in respect of which this Prospectus is being delivered are set forth in the accompanying Supplement relating thereto, including the following, as applicable:

1. the title of the Series;
2. the aggregate principal amount of the Debt Securities of the Series;
3. the date or dates on which principal and premium, if any, on the Debt Securities of the Series is payable, and, if applicable, the terms on which such maturity may be extended;
4. the rate or rates of interest (if any) on the Debt Securities of such Series (whether floating or fixed), the provisions, if any, for determining such interest rate or rates and adjustments thereto, the interest payment dates and the regular record dates with respect thereto;
5. the currency(ies) in which principal, premium, if any, and interest are payable by UHS, if other than United States dollars;
6. provisions relating to redemption, at the option of UHS, pursuant to a sinking fund or otherwise or at the option of a Holder and the respective redemption dates and redemption prices and the terms and conditions for such redemption;
7. additional or different covenants or Events of Default, if any, with respect to the Debt Securities of such Series in addition to or in lieu of the covenants and Events of Default specified in the Indenture; and
8. if less than 100% of the principal amount of Debt Securities of such Series is payable on acceleration or provable in bankruptcy (which may be the case for securities issued with original issue discount), a schedule of the amounts which would be so payable or provable from time to time.

The Debt Securities will be issued only in registered form, without coupons, in denominations of \$1,000 and integral multiples thereof, or in such other currencies or denominations as may be specified in, or pursuant to, the Authorizing Resolution and/or supplemental indenture relating to such Series of Debt Securities. The Debt Securities will be senior unsecured obligations of UHS.

Except as otherwise specified in the Authorizing Resolution and/or supplemental indenture relating to the Debt Securities in respect of which this Prospectus is being delivered, principal and interest will be payable, and the Debt Securities will be transferable, at the office of the Trustee in New York, New York. At UHS' option,

interest may be paid by check mailed to the registered holders of the Debt Securities. UHS may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with certain transfers or exchanges. Initially, the Trustee will act as paying agent and registrar under the Indenture. UHS may act as paying agent and registrar and may change any paying agent or registrar without notice.

Except as otherwise specified in the Authorizing Resolution and/or supplemental indenture relating to the Debt Securities in respect of which this Prospectus is being delivered, the Debt Securities do not contain event risk provisions designed to require UHS to redeem the Debt Securities or take other actions in response to highly leveraged transactions, change in credit rating or other similar occurrences.

The Debt Securities of a Series may be issued in whole or in part in the form of one or more global securities ("Global Securities") that will be deposited with, or on behalf of, a depository (the "Depository") identified in the Supplement relating to such Series. Global Securities may be issued only in fully registered form and either temporary or permanent form. Unless and until it is exchanged in whole or in part for the individual Debt Securities represented thereby, a Global Security (i) may not be transferred except as a whole and (ii) may only be transferred (A) by the Depository for such Global Security to its nominee, (B) by a nominee of such Depository to such Depository or another nominee of such Depository or (C) by such Depository or any such nominee to a successor Depository or nominee of such successor Depository. The specific terms of the depository arrangement with respect to a Series of Debt Securities will be described in the Supplement relating to such Series.

#### DEFINITIONS

"Attributable Debt" means, with respect to any Sale and Leaseback Transaction as of any particular time, the present value (discounted at the rate of interest implicit in the terms of the lease) of the obligations of the lessee under such lease for net rental payments during the remaining term of the lease (including any period for which such lease has been extended or may, at the option of UHS, be extended).

"Consolidated Net Tangible Assets" means the total assets appearing on a consolidated balance sheet of UHS and its Consolidated Subsidiaries (as defined in the Indenture), less, without duplication: (i) current liabilities; (ii) all intangible assets and deferred charges; and (iii) deferred income tax assets.

"Funded Debt" means all Indebtedness maturing one year or more from the date of the creation thereof, all Indebtedness directly or indirectly renewable or extendible, at the option of the debtor, by its terms or by the terms of any instrument or agreement relating thereto, to a date one year or more from the date of the creation thereof, and all Indebtedness under a revolving credit or similar agreement obligating the lender or lenders to extend credit over a period of one year or more, even though such Indebtedness may also conform to the definition of Short-Term Borrowing (as defined in the Indenture).

"Indebtedness" means (i) any liability of any person (a) for borrowed money, (b) evidenced by a note, debenture or similar instrument (including a purchase money obligation) given in connection with the acquisition of any property or assets (other



than inventory or similar property acquired in the ordinary course of business), including securities, or (c) for the payment of money relating to a Capitalized Lease Obligation (as defined in the Indenture); (ii) any guarantee by any person of any liability of others described in the preceding clause (i); and (iii) any amendment, renewal, extension or refunding of any liability of the types referred to in clauses (i) and (ii) above.

"Lien" means any mortgage, lien, pledge, charge, or other security interest or encumbrance of any kind.

"Principal Property of UHS" shall mean any property, plant, equipment or facility of UHS or any Subsidiary of UHS, except that any property, plant, equipment or facility of UHS or any Subsidiary of UHS which does not equal or exceed 3% of Consolidated Net Tangible Assets shall not constitute a Principal Property of UHS unless the Board of Directors or management of UHS deems it to be material to UHS and its Subsidiaries, taken as a whole. Principal Property of UHS shall not include accounts receivable or inventory of UHS or any Subsidiary of UHS; provided, however, that individual items of property, plant, equipment or individual facilities of UHS or any Subsidiary of UHS shall not be combined in determining whether such property, plant, equipment or facility constitutes a Principal Property of UHS, whether or not they are the subject of the same transaction or series of transactions.

"Sale and Leaseback Transaction" is defined in the "Restrictions on Sales and Leasebacks" covenant described below.

"Stated Maturity" when used with respect to any security or any installment of interest thereon means the date specified in such security as the fixed date on which the principal of such security or such installment of interest is due and payable.

"Subsidiary" means (i) a corporation a majority of whose capital stock with voting power, under ordinary circumstances, to elect directors is at the time, directly or indirectly, owned by UHS, by UHS and a Subsidiary (or Subsidiaries) of UHS or by a Subsidiary (or Subsidiaries) of UHS or (ii) any person (other than a corporation) in which UHS, a Subsidiary (or Subsidiaries) of UHS or UHS and a Subsidiary (or Subsidiaries) of UHS, directly or indirectly, at the date of determination thereof has at least majority ownership interest.

#### RESTRICTIONS ON LIENS

UHS will not, and will not permit any Subsidiary of UHS to, incur, create, assume or otherwise become liable with respect to any Indebtedness secured by a Lien, or guarantee any Indebtedness with a guarantee which is secured by a Lien, on any Principal Property of UHS or any shares of Capital Stock or Indebtedness of any Consolidated Subsidiary, without effectively providing that the Debt Securities (together with, if UHS shall so determine, any other Indebtedness of UHS then existing or thereafter created ranking equally with the Debt Securities) shall be secured equally and ratably with (or, at the option of UHS, prior to) such secured Indebtedness so long as such secured Indebtedness shall be so secured; provided, however, that this covenant will not apply to Indebtedness secured by: (a) Liens existing on the date of the Indenture; (b) Liens in favor of governmental bodies to secure progress, advance or

other payments; (c) Liens existing on property, Capital Stock or Indebtedness at the time of acquisition thereof (including acquisition through lease, merger or consolidation) or Liens to secure the payment of all or any part of the purchase price thereof or the purchase price of construction, installation, renovation, improvement or development thereon or thereof or to secure any Indebtedness incurred prior to, at the time of, or within 360 days after the later of the acquisition, completion of such construction, installation, renovation, improvement or development or the commencement of full operation of such property or within 360 days after the acquisition of such Capital Stock or Indebtedness for the purpose of financing all or any part of the purchase price thereof; (d) Liens securing Indebtedness in an aggregate amount which, at the time of incurrence and together with all outstanding Attributable Debt in respect of Sale and Leaseback Transactions permitted by clause (y) in the "Restrictions on Sales and Leasebacks" covenant, does not exceed 5% of the Consolidated Net Tangible Assets of UHS and its Subsidiaries; and (e) any extension, renewal or replacement (or successive extensions, renewals or replacements), as a whole or in part, of any Liens referred to in the foregoing clauses (a) through (d) inclusive; provided, that such extension, renewal or replacement of such Lien is limited to all or any part of the same property, Capital Stock or Indebtedness that secured the Lien extended, renewed or replaced (plus improvements on such property), and that such secured Indebtedness at such time is not increased.

#### RESTRICTIONS ON SALES AND LEASEBACKS

UHS will not, and will not permit any Subsidiary of UHS to, sell or transfer any Principal Property of UHS, with UHS or such Subsidiary taking back a lease of such Principal Property of UHS (a "Sale and Leaseback Transaction"), unless (i) such Principal Property of UHS is sold within 360 days from the date of acquisition of such Principal Property of UHS or the date of the completion of construction or commencement of full operations of such Principal Property of UHS, whichever is later, or (ii) UHS or such Subsidiary, within 120 days after such sale, applies or causes to be applied to the retirement of Funded Debt of UHS or any Subsidiary (other than Funded Debt of UHS which by its terms or the terms of the instrument pursuant to which it was issued is subordinate in right of payment to the Debt Securities) an amount not less than the greater of (A) the net proceeds of the sale of such Principal Property of UHS or (B) the fair value (as determined in any manner approved by the Board of Directors) of such Principal Property of UHS. The provisions of this covenant shall not prevent a Sale and Leaseback Transaction (x) if the lease entered into by UHS or such Subsidiary in connection therewith is for a period, including renewals, of not more than 36 months, (y) if UHS or such Subsidiary would, at the time of entering into such Sale and Leaseback Transaction, be entitled, with out equally and ratably securing the Debt Securities, to create or assume a Lien on such Principal Property of UHS securing Indebtedness in an amount at least equal to the Attributable Debt in respect of such Sale and Leaseback Transaction pursuant to clause (d) above in the "Restrictions on Liens" covenant or (z) involving a Sale and Leaseback of a Principal Property of UHS to UHT not exceeding 5% of Consolidated Net Tangible Assets.

## RANKING

The Debt Securities constitute senior unsecured obligations of UHS. As of May 31, 1995, UHS had approximately \$35 million of indebtedness outstanding which would rank pari passu with the Debt Securities. Creditors of UHS' Subsidiaries will have a claim on the assets of such Subsidiaries which will be prior to the holders of the Debt Securities. Indebtedness under UHS' revolving credit agreement is guaranteed by Subsidiaries of UHS. Except as otherwise specified in the Authorizing Resolution and/or supplemental indenture relating to the Debt Securities in respect of which this Prospectus is being delivered, there are no limitations in the Indenture relating to the Debt Securities on the amount of additional Indebtedness which may rank pari passu with the Debt Securities or on the amount of Indebtedness, secured or otherwise, which may be incurred or preferred stock which may be issued by any of UHS' Subsidiaries; provided, that the incurrence of secured Indebtedness by UHS is subject to the limitations set forth in the "Restrictions on Liens" covenant.

## DISCHARGE

Except as specifically set forth in the Indenture, UHS may terminate its obligations under any Series of Debt Securities and the Indenture with respect to such Series, at any time, (a) by delivering all outstanding Debt Securities of such Series to the Trustee for cancellation and paying any other sums payable by it under such Debt Securities and the Indenture with respect to such Series, or (b) after giving notice to the Trustee of its intention to defease all of the Debt Securities of such Series by irrevocably depositing with the Trustee or a paying agent (other than UHS or a Subsidiary) (i) in the case of any Debt Securities of any Series denominated in United States dollars, cash or U.S. Government Obligations (as defined in the Indenture) sufficient to pay all remaining Indebtedness on such Debt Securities and (ii) in the case of any Debt Securities of any Series denominated in any currency other than United States dollars, an amount of the Required Currency (as defined in the Indenture) sufficient to pay all remaining Indebtedness on such Debt Securities; provided that if such irrevocable deposit pursuant to (b) above is made on or prior to one year from the Stated Maturity for payment of principal of such Series of Debt Securities, UHS shall have delivered to the Trustee either an opinion of counsel with no material qualifications or a favorable ruling of the Internal Revenue Service, in either case to the effect that holders of such Debt Securities (i) will not recognize income, gain or loss for Federal income tax purposes as a result of such deposit (and the defeasance contemplated in connection therewith) and (ii) will be subject to Federal income tax on the same amounts and in the same manner and at the same time as would have been the case if such deposit and defeasance had not occurred.

## MERGER AND CONSOLIDATION

UHS shall not consolidate with or merge with or into any other corporation or transfer all or substantially all of its property and assets as an entirety to any person, in one or a series of related transactions, unless (i) UHS shall be the continuing person or the corporation formed by such consolidation or into which UHS is merged or to which the properties and assets of UHS as an entirety are transferred is a corporation organized and existing under the laws of the United States or any State thereof or the

District of Columbia which expressly assumes all of the obligations of UHS under the Debt Securities and the Indenture and (ii) immediately before and immediately after giving effect to such transaction, no Event of Default and no event which, after notice or lapse of time or both, would become an Event of Default shall have occurred and be continuing.

#### MODIFICATION AND WAIVER

Modification and amendment of the Indenture may be made by UHS and the Trustee with the consent of the holders of not less than a majority in principal amount of the outstanding Debt Securities of all Series affected thereby (voting as a single class); provided that such modification or amendment may not, without the consent of the holder of the Debt Securities affected thereby, (i) extend the Stated Maturity of the principal of or any installment of interest with respect to the Debt Securities; (ii) reduce the principal amount of, or the rate of interest on, or alter the redemption provisions with respect to, the Debt Securities; (iii) change the currency of payment of principal of or interest on the Debt Securities; (iv) impair the right to institute suit for the enforcement of any payment on or with respect to the Debt Securities; (v) reduce the above-stated percentage of holders of the Debt Securities necessary to modify or amend the Indenture; or (vi) modify the foregoing requirements or reduce the percentage of outstanding Debt Securities necessary to waive any covenant or past default. Holders of not less than a majority in principal amount of the outstanding Debt Securities of all Series affected thereby (voting as a single class) may waive certain past defaults and may waive compliance by UHS with any provision of the Indenture or such Debt Securities (subject to the immediately preceding sentence); provided, that, only the holders of a majority in principal amount of Debt Securities of a particular Series may waive compliance with a provision of the Indenture or the Debt Securities of such Series having applicability solely to such Series.

#### EVENTS OF DEFAULT AND NOTICE THEREOF

The term "Event of Default" when used in the Indenture with respect to any Series of Debt Securities, means any one of the following: (i) failure of UHS to pay interest on such Series of Debt Securities within 30 days of when due or principal on such Series of Debt Securities when due (including any sinking fund installment); (ii) failure to perform any other agreement in the Debt Securities of such Series or the Indenture other than an agreement relating solely to another Series of Debt Securities for 30 days after notice; (iii) acceleration of Indebtedness of UHS or any Significant Subsidiary (as defined in the Indenture) under the terms of the instruments evidencing such Indebtedness aggregating more than \$5 million at the time outstanding; (iv) a default in the payment of principal of or interest in respect of any Indebtedness of UHS or any Significant Subsidiary having an outstanding principal amount of \$5 million individually or in the aggregate; (v) judgments for the payment of more than \$5 million at the time outstanding rendered against UHS or any Significant Subsidiary and not discharged within 60 days after such judgment becomes final and nonappealable; and (vi) certain events of bankruptcy, insolvency or reorganization with respect to UHS or any Significant Subsidiary. Additional or different Events of Default, if any, applicable to the Series of Debt Securities in respect of which this Prospectus is being delivered are specified in the accompanying Supplement.

The Indenture provides that the Trustee shall, within 60 days after the occurrence of any default (the term "default" to include the events specified above without grace or notice) with respect to any Series of Debt Securities actually known to it, give to the holders of such Debt Securities notice of such default; provided that, except in the case of a default in the payment of principal of or interest on any of the Debt Securities or in the payment of any sinking fund installment, the Trustee shall be protected in withholding such notice if it in good faith determines that the withholding of such notice is in the interest of the holders of such Debt Securities. The Indenture will require UHS to certify to the Trustee quarterly as to whether any default occurred during such quarter.

In case an Event of Default (other than an Event of Default resulting from bankruptcy, insolvency or reorganization of UHS) with respect to any Debt Securities of such Series shall occur and be continuing, the Trustee or the holders of at least 25% in aggregate principal amount of the Debt Securities of such Series then outstanding, by notice in writing to UHS (and to the Trustee if given by the holders of the Debt Securities of such Series), may declare all unpaid principal of and accrued interest on such Debt Securities then outstanding to be due and payable immediately. In case an Event of Default resulting from certain events of bankruptcy, insolvency or reorganization of UHS shall occur, all unpaid principal of and accrued interest on all Debt Securities then outstanding shall be due and payable immediately without any declaration or other act on the part of the Trustee or the holders of any Debt Securities. Such acceleration may be annulled and past defaults (except, unless theretofore cured, a default in payment of principal of or interest on the Debt Securities of such Series) may be waived by the holders of a majority in principal amount of the Debt Securities of such Series then outstanding upon the conditions provided in the Indenture.

The Indenture provides that no holder of the Debt Securities of such Series may pursue any remedy under the Indenture unless the Trustee shall have failed to act after, among other things, notice of an Event of Default and request by holders of at least 25% in principal amount of the Debt Securities of the Series of which the Event of Default has occurred and the offer to the Trustee of indemnity satisfactory to it; provided, however, that such provision does not affect the right to sue for enforcement of any overdue payment on such Debt Securities.

#### THE TRUSTEE

PNC Bank, National Association will be Trustee under the Indenture. The Indenture contains certain limitations on the right of the Trustee, as a creditor of UHS, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; provided, however, if it acquires any conflicting interest, it must eliminate such conflict or resign.

The holders of a majority in principal amount of all outstanding Debt Securities of a Series (or if more than one Series is affected thereby, of all Series so affected voting as a single class) will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy or power available to the Trustee.

In case an Event of Default shall occur (and shall not be cured) and is known to the Trustee, the Trustee shall exercise such of the rights and powers vested in it by the Indenture and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any of the holders of Debt Securities unless they shall have offered to the Trustee security and indemnity satisfactory to it.

#### GOVERNING LAW

The Indenture and the Debt Securities will be governed by the laws of the State of New York.

#### PLAN OF DISTRIBUTION

UHS may sell the Debt Securities in any of three ways: (i) through underwriters or dealers; (ii) directly to a limited number of institutional purchasers or to a single purchaser; or (iii) through agents. The underwriters for any offering may include Dillon, Read & Co. Inc., J.P. Morgan Securities Inc., BA Securities, Inc. and Chemical Securities Inc. Any such dealer or agent, in addition to any underwriter, may be deemed to be an underwriter within the meaning of the Securities Act of 1933. The terms of the offering of the Series of Debt Securities with respect to which this Prospectus is being delivered are set forth in the accompanying Supplement, including the name or names of any underwriters, dealers or agents, the purchase price of such Series and the proceeds to UHS from such sale, any underwriting discounts and other items constituting underwriters' compensation, the initial public offering price and any discounts or concessions which may be allowed or reallocated or paid to dealers and any securities exchanges on which the Series may be listed.

If underwriters are used in the sale, the Debt Securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The Debt Securities may be offered to the public either through underwriting syndicates represented by managing underwriters or directly by one or more underwriters acting alone. Unless otherwise set forth in the Supplement, the obligation of the underwriters to purchase the Debt Securities described in the accompanying Supplement will be subject to certain conditions precedent and the underwriters will be obligated to purchase all such Debt Securities if any are so purchased by them. Any initial public offering price and any discounts or concessions allowed or reallocated or paid to dealers may be changed from time to time.

The Debt Securities may be sold directly by UHS or through agents designated by UHS from time to time. Any agents involved in the offer or sale of the Debt Securities in respect of which this Prospectus is being delivered are named, and any commissions payable by UHS to such agents are set forth in the accompanying Supplement. Unless otherwise indicated in the Supplement, any such agent will be acting on a best efforts basis for the period of its appointment.

If dealers are utilized in the sale of any Debt Securities, UHS will sell the Debt Securities to the dealers, as principals. Any dealer may resell the Debt Securities to the public at varying prices to be determined by the dealer at the time of resale. The name of any dealer and the terms of the transaction will be set forth in the Supplement with respect to the Debt Securities being offered thereby.

Underwriters will not be obligated to make a market in any Debt Securities. UHS cannot predict the activity of trading in, or liquidity of, any Debt Securities.

Agents, dealers and underwriters will be entitled under agreements entered into with UHS to indemnification by UHS against certain civil liabilities, including liabilities under the Securities Act of 1933, or to contribution by UHS to payments they may be required to make in respect thereof. Agents, dealers and underwriters may be customers of, engage in transactions with or perform services for UHS in the ordinary course of business.

#### LEGAL MATTERS

Certain legal matters with respect to the validity of the Debt Securities will be passed upon for UHS by Fulbright & Jaworski L.L.P., 666 Fifth Avenue, New York, New York 10103. Anthony Pantaleoni, a director of UHS who owns less than one percent of the outstanding capital stock of UHS, is a partner of Fulbright & Jaworski L.L.P. Certain legal matters with respect to a particular issue of Debt Securities will be passed upon for the underwriters, dealers or agents, if any, by Cahill Gordon & Reindel, a partnership including a professional corporation, 80 Pine Street, New York, New York 10005.

#### EXPERTS

The consolidated financial statements and schedule of Universal Health Services, Inc. and subsidiaries as of December 31, 1994 and 1993, and for each of the three years in the period ended December 31, 1994, 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 L.L.P., 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 appearing in this Prospectus and Registration Statement have been audited by Ernst & Young 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.

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## 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. (a Delaware corporation) and subsidiaries as of December 31, 1993 and 1994, 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, 1994. These consolidated financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule 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 consolidated 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, 1993 and 1994, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Philadelphia, Pennsylvania  
February 16, 1995

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

	1992	1993	1994
	-----	-----	-----
Net revenues.....	\$731,227,000	\$761,544,000	\$782,199,000
Operating charges			
Operating expenses.....	285,922,000	299,645,000	298,108,000
Salaries and wages.....	265,017,000	280,041,000	286,297,000
Provision for doubtful accounts.....	45,008,000	55,409,000	58,347,000
Depreciation & amortization.....	49,059,000	39,599,000	42,383,000
Lease and rental expense.....	33,854,000	34,281,000	34,097,000
Interest expense, net.....	11,414,000	8,645,000	6,275,000
Nonrecurring charges.....	--	8,828,000	9,763,000
	-----	-----	-----
Total operating charges.....	690,274,000	726,448,000	735,270,000
	-----	-----	-----
Income before income taxes.....	40,953,000	35,096,000	46,929,000
Provision for income taxes.....	20,933,000	11,085,000	18,209,000
	-----	-----	-----
Net income.....	\$20,020,000	\$24,011,000	\$28,720,000
	=====	=====	=====
Earnings per common & common share equivalents (fully diluted).....	\$ 1.43	\$ 1.71	\$ 2.02
	=====	=====	=====
Weighted average number of common shares and equivalents.....	14,970,000	14,819,000	14,389,000
	=====	=====	=====

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

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

Assets	December 31	
	1993	1994
<b>CURRENT ASSETS</b>		
Cash and cash equivalents.....	\$ 569,000	\$ 780,000
Accounts receivable, net of allowance of \$28,444,000 in 1993 and \$34,957,000 in 1994 for doubtful accounts.....	78,605,000	84,818,000
Supplies.....	12,617,000	15,723,000
Deferred income taxes.....	7,733,000	12,942,000
Other current assets.....	2,475,000	4,126,000
	101,999,000	118,389,000
<b>PROPERTY AND EQUIPMENT</b>		
Land.....	29,026,000	34,159,000
Buildings and improvements.....	284,510,000	314,545,000
Equipment.....	191,483,000	218,844,000
Property under capital lease.....	18,937,000	24,782,000
	523,956,000	592,330,000
Less accumulated depreciation.....	231,509,000	265,059,000
	292,447,000	327,271,000
Construction in progress.....	9,985,000	4,372,000
	302,432,000	331,643,000
<b>OTHER ASSETS</b>		
Excess of cost over fair value of net assets acquired.....	38,089,000	38,762,000
Deferred income taxes.....	--	2,742,000
Deferred charges.....	1,697,000	1,527,000
Other.....	16,205,000	28,429,000
	55,991,000	71,460,000
	\$460,422,000	\$521,492,000
	=====	=====
<b>LIABILITIES AND COMMON STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt.....	\$ 4,313,000	\$ 7,236,000
Accounts payable.....	34,038,000	37,185,000
<b>Accrued liabilities</b>		
Compensation and related benefits.....	16,565,000	20,208,000
Interest.....	3,247,000	2,442,000
Other.....	25,789,000	32,294,000
Federal and state taxes.....	2,547,000	4,417,000
	86,499,000	103,782,000
Total current liabilities.....	86,499,000	103,782,000
DEFERRED INCOME TAXES.....	3,863,000	--
OTHER NONCURRENT LIABILITIES.....	70,491,000	71,956,000
LONG-TERM DEBT.....	75,081,000	85,125,000
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>COMMON STOCKHOLDERS' EQUITY</b>		
Class A Common Stock, voting, \$.01 par value; authorized 12,000,000 shares; issued and outstanding 1,139,123 shares in 1993 and 1,090,527 in 1994.....	11,000	11,000
Class B Common Stock, limited voting, \$.01 par value; authorized 50,000,000 shares; issued and outstanding 12,171,454 shares in 1993 and 12,591,854 in 1994.....	122,000	126,000
Class C Common Stock, voting, \$.01 par value; authorized 1,200,000 shares; issued and outstanding 114,482 shares in 1993 and 109,622 in 1994.....	1,000	1,000
Class D Common Stock, limited voting, \$.01 par value; authorized 5,000,000 shares; issued and outstanding 26,223 shares in 1993 and 22,769 in 1994.....	--	--
Capital in excess of par value, net of deferred compensation of \$291,000 in 1993 and \$414,000 in 1994.....	80,878,000	88,295,000
Retained earnings.....	143,476,000	172,196,000
	224,488,000	260,629,000
	\$460,422,000	\$521,492,000
	=====	=====

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, 1992 1993, AND 1994

	CLASS A COMMON	CLASS B COMMON	CLASS C COMMON	CLASS D COMMON	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	TOTAL
Balance							
January 1, 1992...	\$14,000	\$121,000	\$2,000	\$1,000	\$84,770,000	\$99,445,000	\$184,353,000
Common Stock							
Issued.....	--	--	--	--	1,134,000	--	1,134,000
Converted....	(2,000)	4,000	(1,000)	(1,000)	--	--	--
Repurchased...	--	(2,000)	--	--	(2,924,000)	--	(2,926,000)
Amortization of deferred compensation..	--	--	--	--	361,000	--	361,000
Cancellation of stock grant...	--	--	--	--	(39,000)	--	(39,000)
Net income.....	--	--	--	--	--	20,020,000	20,020,000
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							
December 31, 1994	\$11,000	\$126,000	\$1,000	--	\$88,295,000	\$172,196,000	\$260,629,000

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

	1992	1993	1994
	-----	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income.....	\$20,020,000	\$24,011,000	\$28,720,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization.....	49,059,000	39,599,000	42,383,000
Provision for self-insurance reserves.....	21,193,000	20,755,000	10,810,000
Other non-cash charges.....	--	8,828,000	9,763,000
Changes in assets and liabilities, net of effects from acquisitions and dispositions:			
Accounts receivable.....	7,608,000	12,928,000	(4,380,000)
Accrued interest.....	(256,000)	(412,000)	(805,000)
Accrued and deferred income taxes.....	(9,955,000)	(8,990,000)	(9,944,000)
Other working capital accounts.....	3,960,000	4,858,000	1,710,000
Other assets and deferred charges.....	(2,120,000)	(5,804,000)	(3,064,000)
Other.....	620,000	1,002,000	(42,000)
Payments made in settlement of self-insurance claims.....	(8,398,000)	(12,135,000)	(14,527,000)
	-----	-----	-----
Net cash provided by operating activities.....	81,731,000	84,640,000	60,624,000
	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Property and equipment additions.....	(33,244,000)	(47,319,000)	(43,998,000)
Disposition of assets.....	2,652,000	227,000	1,132,000
Acquisition of properties previously leased.....	--	(3,218,000)	(5,771,000)
Acquisition of businesses.....	(7,188,000)	(11,526,000)	(16,794,000)
Acquisition of assets held for lease.....	--	--	(9,059,000)
Disposition of businesses.....	12,355,000	18,492,000	3,791,000
Other investments.....	--	--	(1,079,000)
	-----	-----	-----
Net cash used in investing activities.....	(25,425,000)	(43,344,000)	(71,778,000)
	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Additional borrowings.....	15,375,000	1,800,000	45,469,000
Reduction of long-term debt.....	(85,900,000)	(46,496,000)	(21,981,000)
Issuance of common stock.....	1,134,000	519,000	1,026,000
Repurchase of common shares.....	(2,926,000)	(3,236,000)	(13,149,000)
	-----	-----	-----
Net cash provided by (used in) financing activities....	(72,317,000)	(47,413,000)	11,365,000
	-----	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	(16,011,000)	(6,117,000)	211,000
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD.....	22,697,000	6,686,000	569,000
	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD.....	\$ 6,686,000	\$ 569,000	\$ 780,000
	=====	=====	=====
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>			
Interest paid.....	\$ 11,670,000	\$ 9,057,000	\$ 7,080,000
Income taxes paid, net of refunds.....	\$ 31,086,000	\$ 19,901,000	\$ 28,153,000

**SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:**

See Notes 2, 3 and 6

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Universal Health Services, Inc. (the "Company") is primarily engaged in owning and operating acute care and psychiatric hospitals and ambulatory treatment centers. The consolidated financial statements include the accounts of 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:

**NET REVENUES:** Net revenues are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. 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 39%, 43% and 44% of net patient revenues for the years 1992, 1993 and 1994, respectively, excluding the additional revenues from special Medicaid reimbursement programs described in Note 9.

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

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

**OTHER ASSETS:** The excess of cost over fair value of net assets acquired in purchase transactions, net of accumulated amortization of \$47,663,000 in 1993 and \$52,261,000 in 1994 is amortized using the straightline method over periods ranging from five to forty years. During 1992 the Company recorded a \$13.5 million charge to amortization expense due to a revaluation of certain goodwill balances.

During 1994, the Company established an employee life insurance program covering approximately 2,500 employees. At December 31, 1994, the cash surrender value of the policies (\$41.3 million) was recorded net of related loans (\$41.0 million) and is included in other assets.

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

**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 1994, 1993 and 1992 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 451,233.

**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.

**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 \$515,000, \$498,000 and \$266,000 in 1992, 1993 and 1994, respectively.

INTEREST RATE SWAP AGREEMENTS: In managing interest rate exposure, the Company at times enters into interest rate swap agreements. When interest rates change, the differential to be paid or received is accrued as interest expense and is recognized over the life of the agreements.

RECLASSIFICATIONS: Certain prior year amounts have been reclassified to conform with the current year's presentation.

## 2) ACQUISITIONS, DISPOSITIONS AND CLOSURES

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, three 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 totalling \$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 totalling \$2.2 million. In connection with this acquisition, the Company committed to invest at least an additional \$30 million, over a four year period, to renovate the existing facility and construct an additional facility.

During the fourth quarter of 1994, the Company signed a letter of intent to acquire a 225-bed acute and psychiatric care hospital located in Aiken, South Carolina in exchange for a 104-bed acute care hospital, a 126-bed acute and psychiatric care hospital and cash. The majority of the real estate assets of the 126-bed facility are currently being leased from Universal Health Realty Income Trust (the "Trust") pursuant to the terms of an operating lease which expires in 2000. The Company anticipates exchanging additional real estate assets with the Trust as consideration for the purchase of the real estate assets of this facility (See Note 8). The closing of this transaction, which is expected to be completed during the second quarter of 1995, is subject to a number of conditions including regulatory approval. As a result of this transaction a \$4.3 million charge is included in the 1994 consolidated statement of income.

Also during the fourth quarter of 1994, the Company signed a letter of intent to acquire a 512-bed acute care hospital located in Bradenton, Florida. The closing of this transaction is subject to a number of conditions. Although management does not expect to close this transaction until the second quarter of 1995, the Company began to manage the hospital in January, 1995 under a separate management contract. Total cash consideration for the Aiken and Bradenton acquisitions is expected to approximate \$200 million.

Operating results of the hospital located in Edinburg have been included in the financial statements only from the date of acquisition. Assuming the above Edinburg, Aiken and Bradenton 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 \$2.25. 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.

1992 -- During 1992 the Company purchased majority interests in four separate partnerships which own and operate ambulatory surgery facilities for \$7.2 million in cash and the assumption of liabilities totaling \$5.4 million.

Also during 1992, the Company discontinued operations at a 96-bed acute care hospital and sold the fixed assets of this facility for \$3.4 million. The closing and sale of this hospital did not have a material impact on the consolidated financial statements.

### 3) LONG-TERM DEBT

A summary of long-term debt follows:

	DECEMBER 31	
	1993	1994
LONG-TERM DEBT:		
Notes payable (including obligations under capitalized leases of \$12,132,000 in 1993 and \$14,004,000 in 1994) with varying maturities through 2001; weighted average interest at 7.0% in 1993 and 6.9% in 1994 (see Note 6 regarding capitalized leases).....	\$13,727,000	\$19,442,000
Mortgages payable, interest at 6.0% to 11.0% with varying maturities through 2000.....	3,811,000	3,745,000
Revolving credit and demand notes.....	4,600,000	8,950,000
Commercial paper.....	--	38,500,000
Revenue bonds:		
interest at floating rates ranging from 5.5% to 6.9% and one at a fixed rate of 8.3% at December 31, 1994 with varying maturities through 2015	18,200,000	18,200,000
Subordinated debt.....	9,151,000	3,524,000
	29,905,000	--
	79,394,000	92,361,000
Less-Amounts due within one year.....	4,313,000	7,236,000
	<u>\$75,081,000</u>	<u>\$85,125,000</u>

During 1994, the Company increased its commercial paper facility from \$25 million to \$50 million. The facility is a daily valued program which is secured by patient accounts receivable. 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.

The Company entered into an unsecured \$125 million non-amortizing revolving credit agreement in 1994 which matures in August of 1999 and 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 leverage and coverage ratios. At December 31, 1994 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. At December 31, 1994, the Company had \$125 million of unused borrowing capacity, and there were no borrowings outstanding under this revolving credit agreement.

The average amounts outstanding during 1992, 1993 and 1994 under the revolving credit and demand notes and commercial paper program were \$47,318,000, \$25,069,000 and \$16,324,000, respectively, with corresponding effective interest rates of 5.5%, 4.6% and 7.9% including commitment fees. The maximum amounts outstanding at any month-end were \$91,650,000, \$46,800,000 and \$47,450,000 during 1992, 1993 and 1994 respectively.

The Company has entered into interest rate swap agreements to reduce the impact of changes in interest rates on its floating rate revolving credit and demand notes and commercial paper program. At December 31, 1994, the Company had two interest rate swap agreements with commercial banks having a total notional principal amount of \$30 million. These agreements call for the payment of interest at a fixed rate by the Company in return for the payment by the commercial banks of a variable rate interest, which effectively fixes the Company's interest rate on a portion of its floating rate debt at 11.9%. The interest rate swap agreements in the amounts of \$20 million and \$10 million expire in January, 1995 and March, 1996, respectively. The effective interest rate on the Company's revolving credit and demand notes and commercial paper program including interest rate swap expense was 11.2%, 13.9% and 16.1% during 1992, 1993 and 1994, respectively. Additional interest expense recorded as a result of the Company's hedging activity was \$4,158,000, \$3,160,000 and \$1,981,000 in 1992, 1993 and 1994, respectively. The Company is exposed to credit loss in the event of non-performance by the counterparties to the interest rate swap agreements. These counterparties are major financial institutions and the Company does not anticipate nonperformance by the counterparties which are rated AA or better by Moody's Investors Service. The cost to terminate the swap obligations at December 31, 1993 and 1994, was approximately \$4,870,000 and \$2,133,000, 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.

During 1994, the Company called its 7 1/2% subordinated convertible debentures due 2008. Approximately \$11 million of the debentures were redeemed in cash and \$19 million were converted to the Company's class B stock.

Substantially all of the Company's accounts receivable are pledged as collateral to secure debt.

The fair value of the Company's long-term debt at December 31, 1994 was approximately equal to its carrying value.

The Company is currently negotiating an increase to its revolving credit agreement. In connection with this transaction and other potential debt transactions to finance the acquisitions discussed in Note 2, the Company has entered into two options for interest rate swap agreements to become effective June, 1995, with a notional amount of \$75 million and expiration dates in 2005.

Aggregate maturities follow:

1995	\$ 7,236,000
1996	5,721,000
1997	4,540,000
1998	2,647,000
1999	48,733,000
Later	23,484,000
Total	\$92,361,000

#### 4) COMMON STOCK

During 1993 and 1994, the Company repurchased 224,800 and 509,800 shares of Class B Common Stock respectively at an average purchase price of \$14.39 and \$25.79 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 \$61.6 million of its Common Stock as of December 31, 1994. The repurchased shares are treated as retired.

At December 31, 1994 2,598,439 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 which was approved by the Board of Directors. Under the terms of the Stock Compensation Plan, shares may be granted to key employees of the Company and to consultants and independent contractors. Shares may not be granted to officers or directors of the Company. The Plan will terminate on November 16, 2004, unless terminated sooner by the Board.

At December 31, 1994 the Company has reserved 50,000 shares of its Class B Common Stock for the Stock Compensation Plan. In 1994, 1,800 shares were issued.

In 1992, the Company adopted a Stock Bonus Plan and a Stock Ownership Plan, both of which were approved by the stockholders at the 1992 annual meeting. Under the terms of the Stock Bonus Plan, 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 150,000 shares of Class B Common Stock for this plan and has issued 58,178 shares at December 31, 1994.

Under the terms of the Stock Ownership Plan, eligible employees may purchase shares of 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 100,000 shares of Class B Common Stock for this plan. As of December 31, 1994, 31,234 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, 300,000 shares of Class B Common Stock have been reserved for purchase by officers, key employees and consultants. The restrictions lapse as to one-third of the shares on the third, fourth and fifth anniversary dates of the purchase. The Company has issued 153,513 shares under this plan, of which 45,000 and 41,336 became fully vested during 1993 and 1994, 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 \$265,000 in 1992, \$240,000 in 1993, \$148,000 in 1994.

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, subject to shareholder approval, the Board of Directors approved a 600,000 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, 1992	148,002	\$ 7.80
Granted	135,000	\$12.72
Exercised	(78,487)	\$ 6.82
Cancelled	(4,340)	\$12.67
Balance, January 1, 1993	200,175	\$11.40
Granted	7,400	\$14.88
Exercised	(40,238)	\$ 7.23
Cancelled	(3,000)	\$12.50
Balance, January 1, 1994	164,337	\$12.53
Granted	560,750	\$22.05
Exercised	(15,988)	\$10.98
Cancelled	(5,500)	\$16.64
Balance, December 31, 1994	703,599	\$20.12

Options for 299,350 shares, subject to shareholder approval as described above, were available for grant at December 31, 1994. At December 31, 1994, options for 71,801 shares of Class B Common Stock with an aggregate purchase price of \$893,445 (average of \$12.44 per share) were exercisable.

5) INCOME TAXES

Components of income tax expense are as follows:

	YEAR ENDED DECEMBER 31		
	1992	1993	1994
Currently payable			
Federal	\$28,495,000	\$17,315,000	\$27,014,000
State	3,949,000	1,136,000	3,009,000
	32,444,000	18,451,000	30,023,000
Deferred			
Federal	(10,110,000)	(6,482,000)	(10,412,000)
State	(1,401,000)	(884,000)	(1,402,000)
	(11,511,000)	(7,366,000)	(11,814,000)
Total	\$20,933,000	\$11,085,000	\$18,209,000

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," (SFAS 109). Under SFAS 109, deferred taxes are required to be classified based on the financial statement classification of the related assets and liabilities which give rise to temporary differences. The net effect of the impact of the 1993 tax law changes on the 1993 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	
	1993	1994
Self-insurance reserves .....	\$29,134,000	\$28,944,000
Doubtful accounts and other reserves .....	6,270,000	9,921,000
State income taxes .....	(1,546,000)	(126,000)
Other deferred tax assets .....	491,000	382,000
Depreciable and amortizable assets .....	(22,434,000)	(17,319,000)
Conversion from cash basis to accrual basis of accounting .....	(7,634,000)	(5,017,000)
Other deferred tax liabilities .....	(411,000)	(1,101,000)
Total deferred taxes .....	\$3,870,000	\$15,684,000

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

	YEAR ENDED DECEMBER 31		
	1992	1993	1994
Federal statutory rate .....	34.0%	35.0%	35.0%
Nondeductible (deductible) depreciation, amortization and other .....	13.0	(3.9)	1.6
State taxes, net of Federal income tax benefit ....	4.1	0.5	2.2
Effective tax rate .....	51.1%	31.6%	38.8%

In 1993 and 1994, the Company reviewed its deferred state tax balances and as a result reduced its tax provision by \$780,000 and \$390,000, respectively. The net deferred tax assets and liabilities are comprised as follows:

	YEAR ENDED DECEMBER 31	
	1993	1994
Current deferred taxes		
Assets .....	\$10,723,000	\$16,622,000
Liabilities .....	(2,990,000)	(3,680,000)
Total deferred taxes-current .....	7,733,000	12,942,000
Noncurrent deferred taxes		
Assets .....	25,172,000	22,625,000
Liabilities .....	(29,035,000)	(19,883,000)
Total deferred taxes-noncurrent .....	(3,863,000)	2,742,000
Total deferred taxes .....	\$3,870,000	\$15,684,000

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. The Company has not provided a valuation allowance since management believes that all of the deferred tax assets will be realized through the reversal of temporary differences that result in deferred tax liabilities and through expected future taxable income.

## 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	
	1993	1994
Land, buildings and equipment .....	\$18,937,000	\$23,697,000
Less: accumulated amortization .....	6,400,000	10,426,000
	\$12,537,000	\$13,271,000
	=====	=====

Future minimum rental payments under lease commitments with a term of more than one year as of December 31, 1994 are as follows:

YEAR	CAPITAL LEASES	OPERATING LEASES
1995 .....	\$ 5,581,000	\$ 23,693,000
1996 .....	4,716,000	21,011,000
1997 .....	3,363,000	18,371,000
1998 .....	1,618,000	17,012,000
1999 .....	381,000	16,405,000
Later Years .....	--	36,536,000
Total minimum rental .....	\$15,659,000	\$133,028,000
Less: Amount representing interest .....	1,655,000	
Present value of minimum rental commitments .....	14,004,000	
Less: Current portion of capital lease obligations ...	4,729,000	
Long-term portion of capital lease obligations .....	\$9,275,000	

Capital lease obligations of \$7,310,000, \$5,371,000, \$4,654,000 in 1992, 1993 and 1994 respectively, were incurred when the Company entered into capital leases for new equipment.

## 7) COMMITMENTS AND CONTINGENCIES

The Company is self-insured for its general liability risks for claims limited to \$5 million per occurrence and for its 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. During 1993 and 1994, the Company purchased a general and professional liability occurrence policy with a commercial insurer for one of its larger acute care facilities. This policy includes coverage up to \$25 million per occurrence for general and professional liability risks.

As of December 1993 and 1994, the reserve for professional and general liability risks was \$65.2 million and \$62.4 million, respectively, of which \$8.3 million in 1993 and \$11.0 million in 1994 is included in current liabilities. Self-insurance reserves are based upon actuarially determined estimates.

The Company has outstanding letters of credit totalling \$20 million related to the Company's self-insurance programs (\$11.0 million), as support for various debt instruments (\$.4 million) and as support for a loan guarantee for an unaffiliated party (\$8.6 million). The Company has also guaranteed approximately \$2 million of loans.

During 1994, the Company signed letters of intent to acquire a 512-bed acute care hospital located in Bradenton, Florida and a 225-bed acute and psychiatric care facility located in Aiken, South Carolina. These transactions, which are subject to a number of conditions, are expected to be completed during the second quarter of 1995. In addition to the exchange of certain real estate assets, the total cash consideration for these acquisitions

is expected to approximate \$200 million. Additionally, the Company is committed to invest at least an additional \$30 million, over a four 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 estimates the cost to complete major construction projects in progress at December 31, 1994 will approximate \$12.3 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 1999.

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, 1994, 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/(loss) from the Trust was (\$110,000), \$757,000 and \$1,095,000 in 1992, 1993 and 1994 respectively, and is included in net revenues in the accompanying consolidated statements of income. The carrying value of this investment at December 31, 1993 and 1994 was \$7,375,000 and \$8,404,000, respectively and is included in other assets in the accompanying consolidated balance sheets. The market value of this investment at December 31, 1993 and 1994 was \$10,352,000 and \$11,261,000, 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, 1994, the Company leased eight hospital facilities from the Trust with initial terms expiring in 1999 through 2003. These leases contain up to six 5-year renewal options. Future minimum lease payments to the Trust are included in Note 6. The terms of the lease provide that in the event the Company discontinues operations at the leased facility for more than one year, the Company is obligated to offer a substitute property. If the Trust does not accept the substitute property offered, the Company is obligated to purchase the leased facility back from the Trust at a price equal to the greater of its then fair market value or the original purchase price paid by the Trust (See Note 2). Total rent expense under these operating leases was \$17,000,000 in 1992, \$16,600,000 in 1993 and \$15,700,000 in 1994. The Company received an advisory fee of \$913,000 in 1992, \$880,000 in 1993 and \$909,000 in 1994 from the Trust for investment and administrative services provided under a contractual agreement which is included in net revenues in the accompanying consolidated statements of income.

In connection with various stock based compensation plans, \$405,000 and \$118,000 of loans made to certain officers and key employees were forgiven in 1992 and 1994, respectively, and charged to compensation expense.

At January 1, 1992, the Company had a non-interest bearing demand note from a principal officer which was fully forgiven during 1992. Compensation expense charged to operations related to this note was \$393,000 in 1992.

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.

## 9) QUARTERLY RESULTS (UNAUDITED)

The following tables summarize the Company's quarterly financial data for the two years ended December 31, 1994.

1993	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Net revenues.....	\$195,305,000	\$187,453,000	\$186,332,000	\$192,454,000
Income before income taxes.....	\$ 13,120,000	\$ 9,735,000	\$ 7,503,000	\$ 4,738,000
Net income.....	\$ 8,611,000	\$ 6,478,000	\$ 5,157,000	\$ 3,765,000
Earnings per share (fully diluted).	\$ 0.60	\$ 0.46	\$ 0.37	\$ 0.28

Net revenues in 1993 include \$13.5 million of additional revenues received from special Medicaid reimbursement programs. Of the amount received, \$4.6 million was recorded in each of the first and second quarters, \$1.0 million was recorded in the third quarter and \$3.3 million was recorded in the fourth quarter. These amounts were recorded in the periods that the Company met all of the requirements to be entitled to these reimbursements. The first quarter operating results also include approximately \$4.1 million of expenses related to the disposition of ancillary businesses and the second quarter operating results include a \$3.2 million increase in the reserves for the Company's self-insurance programs. Net revenues in the third quarter include \$3.0 million of unfavorable adjustments related to prior year reimbursement issues and the fourth quarter operating results includes a \$4.7 million pre-tax loss on disposal of two acute care hospitals and the winding down or disposition of non-strategic businesses. The Company's effective tax rate in the fourth quarter was significantly lower than other quarters due to the disposition of two acute care hospitals resulting in the recoupment of previously non-deductible charges.

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).	\$ 0.72	\$ 0.57	\$ 0.41	\$ 0.32

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. These programs are scheduled to terminate in August, 1995. These amounts were recorded in the periods that the Company met all of the requirements to be entitled to these reimbursements. 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).



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

	THREE MONTHS ENDED MARCH 31,	
	----- 1994 -----	----- 1995 -----
Net revenues	\$ 194,432	\$ 220,715
Operating charges:		
Operating expenses	74,327	84,469
Salaries and wages	69,870	78,021
Provision for doubtful accounts	13,208	17,185
Depreciation and amortization	9,920	11,310
Lease and rental expense	8,491	8,772
Interest expense, net	1,822	1,614
	----- 177,638 -----	----- 201,371 -----
Income before income taxes	16,794	19,344
Provision for income taxes	6,507	7,503
	-----  -----	-----  -----
NET INCOME	\$ 10,287 =====	\$ 11,841 =====
Earnings per common and common equivalent share:	\$ 0.72 =====	\$ 0.85 =====
Weighted average number of common shares and equivalents:	14,761 =====	13,942 =====

See accompanying notes to these condensed consolidated financial statements.

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

	DECEMBER 31, 1994 ----	MARCH 31, 1995 ---- (UNAUDITED)
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 780	\$ 1,832
Accounts receivable, net	84,818	90,511
Supplies	15,723	15,827
Deferred income taxes	12,942	18,491
Other current assets	4,126	5,407
	-----	-----
Total current assets	118,389	132,068
	-----	-----
Property and equipment	596,702	608,070
Less: accumulated depreciation	(265,059)	(272,650)
	-----	-----
	331,643	335,420
	-----	-----
<b>OTHER ASSETS:</b>		
Excess of cost over fair value of net assets acquired	38,762	37,572
Deferred income taxes	2,742	2,742
Deferred charges	1,527	1,630
Other	28,429	29,800
	-----	-----
	71,460	71,744
	-----	-----
	\$ 521,492	\$ 539,232
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$ 7,236	\$ 7,175
Accounts payable and accrued liabilities	92,129	92,072
Federal and state taxes	4,417	17,228
	-----	-----
Total current liabilities	103,782	116,475
	-----	-----
Other noncurrent liabilities	71,956	74,831
	-----	-----
Long-term debt, net of current maturities	85,125	75,038
	-----	-----
<b>COMMON STOCKHOLDERS' EQUITY:</b>		
Class A Common Stock, 1,090,527 shares outstanding in 1994, 1,090,527 in 1995	11	11
Class B Common Stock, 12,591,854 shares outstanding in 1994, 12,618,277 in 1995	126	126
Class C Common Stock, 109,622 shares outstanding in 1994, 109,622 in 1995	1	1
Class D Common Stock, 22,769 shares outstanding in 1994, 21,953 in 1995	0	0
Capital in excess of par, net of deferred compensation of \$414,000 in 1994 and \$332,000 in 1995	88,295	88,713
Retained earnings	172,196	184,037
	-----	-----
	260,629	272,888
	-----	-----
	\$ 521,492	\$ 539,232
	=====	=====

See accompanying notes to these condensed consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED MARCH 31, (000'S UNAUDITED)	
	1994	1995
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$10,287	\$11,841
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	9,920	11,310
Provision for self-insurance reserves	2,900	4,504
Changes in assets & liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	(5,946)	(5,693)
Accrued interest	(1,601)	(1,891)
Accrued and deferred income taxes	3,458	7,262
Other working capital accounts	(3,840)	(105)
Other assets and deferred charges	(171)	(2,085)
Other	171	529
Payments made in settlement of self-insurance claims	(3,889)	(1,566)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	11,289	24,106
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment additions	(11,871)	(13,536)
Disposition of assets	250	250
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(11,621)	(13,286)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additional borrowings	2,284	0
Reduction of long-term debt	0	(10,148)
Issuance of common stock	278	380
	-----	-----
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2,562	(9,768)
	-----	-----
INCREASE IN CASH AND CASH EQUIVALENTS	2,230	1,052
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	569	780
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$2,799	\$1,832
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	\$3,423	\$3,505
	=====	=====
Income taxes paid, net of refunds	\$3,049	\$241
	=====	=====

See accompanying notes to these condensed consolidated financial statements.

## UNIVERSAL HEALTH SERVICES, INC.

## 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, 1994.

## (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. Earnings per share have been adjusted for the three months ended March 31, 1994 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 451,233.

## (3) UNUSUAL ITEMS

Included in net revenues for the three month periods ended March 31, 1994 and 1995 was \$3.0 million and \$3.3 million, respectively, of additional revenues received from special Medicaid reimbursements received by one of the Company's acute care facilities which participates 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, the hospital became eligible and received additional reimbursement from the state's disproportionate share hospital fund. This program is scheduled to terminate in August, 1995 and the Company cannot predict whether this program 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 \$20,000,000 related principally to the Company's self-insurance programs and as support for various debt instruments and loan guarantees.

AIKEN REGIONAL MEDICAL CENTERS  
FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 1994  
TOGETHER WITH AUDITORS' REPORT

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Aiken Regional Medical Centers:

We have audited the accompanying balance sheet of Aiken Regional Medical Centers as of December 31, 1994, and the related statements of income, stockholder's equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aiken Regional Medical Centers as of December 31, 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Philadelphia, Pa.,  
June 6, 1995

AIKEN REGIONAL MEDICAL CENTERS  
BALANCE SHEETS  
(in thousands)

	December 31, 1994	March 31, 1995
	-----	-----
ASSETS		(Unaudited)
-----		
CURRENT ASSETS:		
Cash	\$ 2,042	\$ 1,537
Accounts receivable, net of contractual allowances and allowance for doubtful accounts of \$14,582 and \$16,639 in 1995 (unaudited) (Note 1)	14,988	15,431
Supplies (Note 1)	2,102	2,128
Other current assets	223	193
Total current assets	----- 19,355	----- 19,289
PROPERTY AND EQUIPMENT (Note 1):		
Land	3,249	3,249
Buildings and improvements	25,976	25,976
Equipment	27,334	27,384
Less- Accumulated depreciation	----- 56,559 (13,484)	----- 56,609 (14,358)
Construction in progress	43,075	42,251
	56	150
	----- 43,131	----- 42,401
GOODWILL (Note 1)	8,005	7,946
OTHER ASSETS (Note 1)	1,625	1,897
	----- \$ 72,116	----- \$ 71,533
	=====	=====
LIABILITIES AND STOCKHOLDER'S EQUITY		
-----		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,721	\$ 2,140
Accrued liabilities	1,809	1,615
Other current liabilities	1,986	2,235
Total current liabilities	----- 7,516	----- 5,990
DEBT ALLOCATED FROM AFFILIATE (Note 3)	9,464	4,500
DUE TO AFFILIATE (Note 6)	25,934	30,755
COMMITMENTS AND CONTINGENCIES (Note 2)		
STOCKHOLDER'S EQUITY:		
Common stock	1	1
Additional paid-in capital	99	157
Retained earnings	29,102	30,130
	----- 29,202	----- 30,288
	----- \$ 72,116	----- \$ 71,533
	=====	=====

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

## AIKEN REGIONAL MEDICAL CENTERS

## STATEMENTS OF INCOME

(in thousands)

	Year Ended December 31, 1994	Three Months Ended March 31	
		1994	1995
		(Unaudited)	
NET REVENUES	\$ 84,012	\$ 19,898	\$ 22,289
OPERATING CHARGES:			
Operating expenses (Note 6)	35,386	8,728	9,781
Salaries and wages	25,637	6,080	6,445
Provision for doubtful accounts	9,687	2,479	2,322
Depreciation and amortization (Note 1)	3,824	911	950
Lease and rental expense (Note 2)	1,445	404	317
Interest expense, net of interest income of \$193, \$5 and \$30, respectively (Note 6)	337	82	60
Management fees (Note 6)	841	210	660
Total operating charges	77,157	18,894	20,535
INCOME BEFORE INCOME TAXES	6,855	1,004	1,754
PROVISION FOR INCOME TAXES (Note 5)	2,816	412	726
NET INCOME	\$ 4,039	\$ 592	\$ 1,028

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



AIKEN REGIONAL MEDICAL CENTERS  
 STATEMENTS OF STOCKHOLDER'S EQUITY  
 (in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings
	-----	-----	-----
JANUARY 1, 1994	\$ 1	\$ 99	\$ 25,063
Net income	-	-	4,039
	-----	-----	-----
DECEMBER 31, 1994	1	99	29,102
Net income (unaudited)	-	-	1,028
Capital contribution	-	58	-
	-----	-----	-----
MARCH 31, 1995 (unaudited)	\$ 1	\$ 157	\$ 30,130
	=====	=====	=====

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

## AIKEN REGIONAL MEDICAL CENTERS

## STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31, 1994	Three Months Ended March 31	
		1994	1995
		(Unaudited)	
<b>OPERATING ACTIVITIES:</b>			
Net income	\$ 4,039	\$ 592	\$ 1,028
Adjustments to reconcile net income to net cash provided by operating activities-			
Depreciation and amortization	3,824	911	950
Provision for doubtful accounts	9,687	2,479	2,322
Change in operating assets and liabilities-			
Accounts receivable	(9,869)	(2,580)	(2,765)
Other current assets	(186)	(12)	4
Other assets	(199)	(15)	(289)
Accounts payable	334	(367)	(1,579)
Other accrued liabilities	274	334	111
Net cash provided by operating activities	7,904	1,342	(218)
<b>INVESTING ACTIVITIES:</b>			
Additions to property and equipment	(2,315)	(580)	(144)
Net cash used in investing activities	(2,315)	(580)	(144)
<b>FINANCING ACTIVITIES:</b>			
Due to affiliate, net	(4,158)	1,509	4,821
Repayment of debt	-	(1)	(4,964)
Net cash (used in) provided by financing activities	(4,158)	1,508	(143)
CHANGE IN CASH	1,431	2,270	(505)
CASH, BEGINNING OF PERIOD	611	611	2,042
CASH, END OF PERIOD	\$ 2,042	\$ 2,881	\$ 1,537

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

## AIKEN REGIONAL MEDICAL CENTERS

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1994

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Aiken Regional Medical Centers (the "Company"), owns and operates a 225 bed facility comprised of an acute care hospital (Aiken Regional Medical Center), a psychiatric hospital (Aurora Pavillion) and a cancer center (The Carolina Cancer Center) in Aiken, South Carolina. The Company is a wholly-owned subsidiary of Columbia/HCA.

In 1989, the Company's then parent (HCA) was acquired in a leveraged buyout transaction accounted for as a purchase. Accordingly, the accompanying financial statements include adjustments to reflect to allocation of HCA's cost, including an adjustment to increase the carrying value of property and equipment to fair value (\$5,728,000) and to allocate the excess of cost over the fair value of tangible assets acquired to goodwill (\$9,364,000).

The more significant accounting policies follow:

## 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 revenues represented 39% and 14%, respectively, of net revenues for the year ended December 31, 1994. Net revenues in 1994 include \$330,000 of favorable adjustments relating to prior year reimbursement issues.

The Company participates in the State of South Carolina's Medicaid Disproportionate Share Program. This program provides additional reimbursement to eligible hospitals based on the unreimbursed costs incurred in providing health care services to Medicaid and underinsured patients. Net revenues in 1994 include approximately \$4.9 million of additional reimbursement recorded under this program as follows (in thousands):

State fiscal year 1989	\$	2,400
State fiscal year 1994 (for the period January 1, 1994 to June 30, 1994)		988
State fiscal year 1995 (for the period July 1, 1994 to December 31, 1994)		1,521
		-----
	\$	4,909
		=====

In 1994, the Company successfully filed an appeal relating to its eligibility to participate in the State's fiscal year 1989 program. As a result of a settlement reached with the State, the Company recorded \$2.4 million of net proceeds received in the third quarter, which amount is included in the table above.

Under the provisions of the State's fiscal year 1995 program, the Company will be entitled to additional disproportionate share payments through June 30, 1995. Management expects that the Company will be eligible for additional amounts under the State's fiscal year 1996 program (July 1, 1995 through June 30, 1996), although the amounts to be received under that program cannot presently be estimated. Management is unable to predict whether these disproportionate share payments will continue beyond the end of the State's fiscal year 1996.

#### Statements of Cash Flows

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

#### Supplies

Supplies are valued at the lower of cost (first-in, first-out) or market.

#### Property and Equipment

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

Depreciation is provided using the straight-line method over the estimated useful lives of buildings and improvements (ranging from 5 to 40 years) and equipment (ranging from 4 to 20 years).

#### Goodwill

The goodwill amount recorded as described above is being amortized over 40 years. In 1994, amortization expense of \$234,000 was charged to operations.

#### Other Assets

Other assets consist primarily of loans made to physicians. These loans have maturities ranging from 3 to 6 years and interest rates ranging from 0% to 8.5%.

## 2. COMMITMENTS AND CONTINGENCIES:

During the fourth quarter of 1994, the Company's parent signed a letter of intent to exchange Aiken Regional Medical Centers for a 104-bed acute care hospital, a 126-bed acute and psychiatric care hospital and cash. The closing of this transaction, which is expected to be completed during June of 1995, is subject to a number of conditions, including regulatory approval. The following assets and liabilities of Aiken Regional Medical Centers are excluded from this exchange: cash and cash equivalents, all intercompany receivables, restricted funds, accounts receivable, inventory, capital lease obligations and long-term indebtedness.

The Company's parent insures a substantial portion of its professional liability risks through a wholly-owned insurance subsidiary.

Minimum rental commitments under operating leases having an initial or remaining noncancelable lease term of more than one year as of December 31, 1994, are as follows:

1995	\$	414,000
1996		304,000
1997		283,000
1998		239,000
Thereafter		—
	\$	1,240,000
		=====

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 financial position or results of operations.

## 3. DEBT ALLOCATED FROM AFFILIATE:

The Company's parent has allocated a portion of its outstanding debt to Aiken Regional Medical Centers. In addition, the parent allocates interest incurred on the outstanding balance of this obligation (see Note 6).

## 4. EMPLOYEE RETIREMENT PLANS:

The Company's employees are eligible to participate in various retirement plans sponsored by Columbia/HCA. Company contributions to these plans represent a percentage of the employee's pay, a percentage of the employee's pay based on years of service or a match of the employee's contribution. Total expense recognized by the Company under these plans was \$499,000 in 1994.

## 5. INCOME TAXES:

The Company's parent generally does not allocate federal and state income taxes to its subsidiary companies, including Aiken Regional Medical Centers. For financial reporting purposes only, the Company has estimated a tax provision for federal and state income taxes as if the Company filed a separate tax return.

The components of income tax provision for the year ended December 31, 1994, are as follows:

Current provision:	
Federal	\$ 3,613,000
State	543,000
	-----
	4,156,000
	-----
Deferred benefit:	
Federal	(1,165,000)
State	(175,000)
	-----
	(1,340,000)
	-----
	\$ 2,816,000
	=====

The financial statements reflect the accounting for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109"). Under FAS 109, deferred taxes are required to be provided based on the temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Temporary differences giving rise to deferred taxes as of December 31, 1994, include doubtful accounts and other reserves, depreciable and amortizable assets and the conversion of cash basis to accrual basis of accounting.

Since the Company's parent does not directly charge its subsidiaries for federal and state income taxes, all accrued and deferred tax liabilities have been included in the amount due to affiliate in the accompanying balance sheet.

The Company's effective tax rate (41.1%) differs from its federal statutory rate (35%) due primarily to the effect of non-deductible depreciation and amortization (2.8%) and state income taxes, net of federal benefit (3.3%).

## 6. RELATED-PARTY TRANSACTIONS:

Columbia/HCA supports the Company in various operating areas and provides centralized cash management and other treasury services. All such intercompany transactions have been included in the accompanying financial statements and are reflected in the amount due to affiliate.

Certain common expenses of the consolidated group, including workers' compensation insurance, general and professional liability insurance and data processing services are allocated to the individual subsidiaries.

Parent Company allocations in the accompanying statement of income for the year ended December 31, 1994, are as follows:

Included in operating expenses-	
Insurance	\$ 919,000
Data processing fees	395,000
Other	22,000
	-----
	1,336,000
Management fees	841,000
Interest	533,000
	-----
Total	\$ 2,710,000
	=====

Board of Directors  
Manatee Hospitals and Health Systems, Inc.

We have audited the accompanying combined balance sheets of Manatee Hospitals and Health Systems, Inc. as of August 31, 1993 and 1994, and the related combined statements of revenue and expenses, changes in fund balances, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Manatee Hospitals and Health Systems, Inc. at August 31, 1993 and 1994, and the combined results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Tampa, Florida  
October 24, 1994



## Manatee Hospitals and Health Systems, Inc.

## Combined Balance Sheets

(Amounts in Thousands)

	AUGUST 31		MARCH 31
	1993	1994	1995
			(Unaudited)
<b>GENERAL FUND</b>			
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 4,989	\$ 6,903	\$ 4,185
Short-term investments	6,046	10,305	12,062
Accounts receivable, less allowance for doubtful accounts of \$5,436 and \$5,139 at August 31, 1993 and 1994, respectively, and \$4,968 at March 31, 1995 (unaudited)	19,291	17,169	22,237
Inventories	2,793	2,517	2,609
Prepaid expenses and other assets	347	237	465
Current portion of assets whose use is limited	4,634	5,070	1,577
<b>Total current assets</b>	<b>38,100</b>	<b>42,201</b>	<b>43,135</b>
Assets whose use is limited, less current portion	13,454	11,342	11,403
Property, plant and equipment:			
Land and land improvements	4,545	4,545	4,545
Leasehold improvements	107	108	108
Buildings	52,902	56,153	57,127
Equipment	25,543	28,362	29,045
Less allowances for depreciation	(27,507)	(32,516)	(35,462)
	55,590	56,652	55,363
Construction in progress	1,432	641	256
	57,022	57,293	55,619
Due from affiliated organizations	11,915	16,926	21,387
Other assets:			
Debt issue costs, less accumulated amortization of \$3,373 and \$3,960 at August 31, 1993 and 1994, respectively, and \$4,303 at March 31, 1995 (unaudited)	3,326	2,739	2,396
Acquisition costs, less accumulated amortization of \$655 and \$728 at August 31, 1993 and 1994, respectively, and \$771 at March 31, 1995 (unaudited)	1,386	1,313	1,270
Other	1,010	911	885
	5,722	4,963	4,551
<b>Total assets</b>	<b>\$126,213</b>	<b>\$132,725</b>	<b>\$136,095</b>
<b>RESTRICTED FUND</b>			
Due from general fund	\$ 914	\$ 828	\$ -

	AUGUST 31 1993	1994	MARCH 31 1995
	-----		
	(Unaudited)		
GENERAL FUND			
LIABILITIES AND FUND BALANCE			
Current liabilities:			
Accounts payable and accrued expenses	\$ 6,887	\$ 6,882	\$ 5,324
Accrued employee compensation and related liabilities	4,666	5,766	7,249
Accrued interest payable	3,796	3,732	1,163
Estimated third-party settlements	366	1,250	2,392
Other current liabilities	2,369	2,310	2,297
Current portion of long-term debt	1,557	1,645	1,737
	-----		
Total current liabilities	19,641	21,585	20,162
Other liabilities	777	759	532
Long-term debt, less current portion and escrowed funds	83,894	82,259	80,869
Fund balance	21,901	28,122	34,532
Total liabilities and fund balance	\$126,213	\$132,725	\$136,095
	=====		
RESTRICTED FUND			
Fund balance	\$ 914	\$ 828	\$ -
	=====		

See accompanying notes.

Manatee Hospitals and Health Systems, Inc.  
 Combined Statements of Revenue and Expenses  
 (Amounts in Thousands)

	YEAR ENDED AUGUST 31 1993	AUGUST 31 1994	SEVEN-MONTH PERIOD ENDED MARCH 31 1994	MARCH 31 1995
	----- (Unaudited)			
Net patient service revenue	\$118,005	\$114,814	\$69,995	\$72,524
Other revenue	1,849	2,399	1,156	1,950
	-----			
Total revenue	119,854	117,213	71,151	74,474
Expenses:				
Salaries and wages	40,393	38,444	22,970	23,596
Employee benefits	10,539	10,587	6,342	6,536
Supplies and other	39,173	39,382	23,534	24,548
Provision for doubtful accounts	9,666	8,663	5,572	5,349
Depreciation and amortization	5,622	5,768	3,286	3,341
Interest	7,779	7,440	4,463	4,974
	-----			
Total expenses	113,172	110,284	66,167	68,344
	-----			
	6,682	6,929	4,984	6,130
Allocated costs	(1,474)	(1,336)	(835)	(849)
	-----			
Income from operations	5,208	5,593	4,149	5,281
Nonoperating gains	345	628	286	504
	-----			
Excess of revenue over expenses	\$ 5,553	\$ 6,221	\$ 4,435	\$ 5,785
	=====			

See accompanying notes.

Manatee Hospitals and Health Systems, Inc.  
 Combined Statements of Changes in Fund Balances  
 (Amounts in Thousands)

	YEAR ENDED AUGUST 31 1993	AUGUST 31 1994	SEVEN-MONTH PERIOD ENDED MARCH 31 1995
			----- (Unaudited)
<b>GENERAL FUND</b>			
Balance at beginning of period	\$16,248	\$21,901	\$28,122
Excess of revenue over expenses	5,553	6,221	5,785
Transfer from restricted fund	100	-	825
Transfer to Foundation	-	-	(200)
	-----		
Balance at end of period	\$21,901	\$28,122	\$34,532
	=====		
<b>RESTRICTED FUND</b>			
Balance at beginning of period	\$ 929	\$ 914	\$ 828
Restricted expenditures	-	(86)	(3)
Restricted donations	85	-	-
Transfer to general fund	(100)	-	(825)
	-----		
Balance at end of period	\$ 914	\$ 828	\$ -
	=====		

See accompanying notes.

## Manatee Hospitals and Health Systems, Inc.

## Combined Statements of Cash Flows

(Amounts in Thousands)

	YEAR ENDED AUGUST 31		SEVEN-MONTH PERIOD ENDED MARCH 31	
	1993	1994	1994	1995
	----- (Unaudited)			
OPERATING ACTIVITIES AND NONOPERATING GAINS				
Excess of revenue over expenses	\$ 5,553	\$ 6,221	\$4,435	\$5,785
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities and nonoperating gains:				
Depreciation and amortization	5,622	5,768	3,286	3,341
Change in current assets and current liabilities, exclusive of cash and cash equivalents and current portions of noncurrent assets and liabilities	1,405	4,450	(972)	(6,075)
Increase (decrease) in other liabilities	65	(18)	(92)	(227)
	-----	-----	-----	-----
Net cash provided by operating activities and nonoperating gains	12,645	16,421	6,657	2,824
INVESTING ACTIVITIES				
Purchases of property, plant and equipment	(4,453)	(5,331)	(3,760)	(1,281)
Increase in short-term investments	(3,105)	(4,259)	(3,050)	(1,757)
Decrease in assets whose use is limited	1,389	1,746	5,039	3,432
(Increase) decrease in other assets	(5)	99	118	26
Restricted donations (expenditures)	85	(86)	(103)	(3)
	-----	-----	-----	-----
Net cash (used in) provided by investing activities	(6,089)	(7,831)	(1,756)	417
FINANCING ACTIVITIES				
Transfer to Foundation	-	-	-	(200)
Payments to affiliated organizations	(5,972)	(5,011)	(1,659)	(4,461)
Repayment of long-term debt	(2,140)	(1,665)	(1,825)	(1,298)
	-----	-----	-----	-----
Net cash used in financing activities	(8,112)	(6,676)	(3,484)	(5,959)
	-----	-----	-----	-----
(Decrease) increase in cash and cash equivalents	(1,556)	1,914	1,417	(2,718)
Cash and cash equivalents at beginning of period	6,545	4,989	4,989	6,903
	-----	-----	-----	-----
Cash and cash equivalents at end of period	\$ 4,989	\$ 6,903	\$6,406	\$4,185
	=====	=====	=====	=====

See accompanying notes.

August 31, 1994

## 1. OPERATIONS AND ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## OPERATIONS AND ORGANIZATION

Manatee Hospitals and Health Systems, Inc. (the Organization) is a not-for-profit corporation affiliated through common corporate membership with Baptist Hospitals and Health Systems, Inc. (BHHS), an Arizona not-for-profit corporation. The Organization consists of Manatee Memorial Hospital (the Hospital) and related affiliates, Trumed, Inc., Intermed America, Inc., and Manatee Memorial Hospital Foundation, Inc. (the Foundation). The Hospital provides acute care inpatient and ambulatory care services, and Trumed, Inc. and Intermed America, Inc. provide home health care services and outpatient care services, respectively. The Foundation conducts fund-raising activities primarily for the benefit of the Hospital. The operations of these affiliates are combined in the accompanying financial statements. All significant intercompany transactions have been eliminated.

The Organization purchased from Manatee County (the County) the assets and assumed the obligations of Manatee Memorial Hospital on July 25, 1984. The Organization entered into an agreement with the County to provide medical care to qualified indigent County residents. The agreement requires the Organization to provide \$150,000 of medical education services to County residents annually through September 1, 2000. As additional consideration, the Organization has agreed to make its best efforts to make certain capital improvements and additions to the Organization and to limit future management fees to BHHS to a certain percentage of gross patient service charges.

## MISSION STATEMENT AND NONOPERATING GAINS AND LOSSES

The primary mission of the Organization is to provide health care services through its acute care and specialty care facilities. Only those activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses unrelated to the primary mission of the Organization are considered to be nonoperating.

## CHARITY CARE

The Organization provides care to patients that meet certain criteria under its charity care policy without charge or at amounts less than its established rates. A patient is classified as a charity patient by reference to certain policies established by the Organization. Partial payments to which the Organization is entitled from public assistance and other programs on behalf of patients that

## Notes to Combined Financial Statements (continued)

1. OPERATIONS AND ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

meet the Organization's charity care criteria are reported as patient service revenue. The Organization considers the difference between established rates and such partial payments from public assistance and other programs to be charity care.

The Organization maintains records to identify the level of charity care provided. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The level of charity care provided (charges foregone, based upon established rates) totaled \$22,200,000 in 1993 and \$24,000,000 in 1994.

## NET PATIENT SERVICE REVENUE

Net patient service revenue includes amounts estimated by management to be reimbursable by Medicare, Medicaid, and other third-party programs. The Organization recognizes estimated final settlements due from or to third-party programs. The final determination of reimbursement amounts is subject to audit by the intermediaries and final settlements are reflected in these statements for cost reports through the year ended August 31, 1992. Differences between estimated provisions and final settlements are reflected as net patient service revenue in the fiscal year the cost reports are finalized. Net patient service revenue includes approximately \$1,994,000 recognized in the current year due to changes in estimated settlements. Presented below are the components of net patient service revenue presented in the combined statements of revenue and expenses:

	YEAR ENDED AUGUST 31	
	1993	1994
	-----	
	(In Thousands)	
Total patient service charges	\$201,375	\$202,028
Less contractual adjustments and other deductions from revenue	(83,370)	(87,214)
	-----	
Net patient service revenue	\$118,005	\$114,814
	=====	

## ESTIMATED MEDICARE SETTLEMENTS

The Organization is covered under the Medicare Prospective Payment System (PPS) and is reimbursed a predetermined amount for inpatient services based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. Since the amount is prospectively determined, retroactive settlements are not made for inpatient services under PPS.

## Notes to Combined Financial Statements (continued)

1. OPERATIONS AND ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

Medicare outpatient services, bad debts, home health care services, and certain capital-related costs are reimbursed on a cost basis. Medicare cost reports are filed annually for reimbursement of these costs. Retroactive cost settlements are estimated and recorded in the financial statements for these amounts.

Charges for services to patients under the Medicare program as a percent of gross patient service charges approximated 54 percent in 1993 and 55 percent in 1994.

## INVENTORIES

Inventories are valued at the lower of cost (first-in, first-out method) or market.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents include investments in highly liquid instruments with a maturity of three months or less at date of acquisition, excluding amounts whose use is limited by Board designation or other arrangements under trust agreements.

## INVESTMENTS AND INVESTMENT INCOME

Marketable securities are carried at cost which approximates market value. Investment earnings on assets whose use is limited are reported as other revenue. All other investment earnings are reported as nonoperating gains.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recorded at historical cost at date of acquisition or fair market value at date of donation. Depreciation expense is computed using the straight-line method. At August 31, 1994, the estimated cost to complete construction projects is approximately \$200,000.

## INCOME TAXES

The Hospital and Trumed, Inc. are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under the provisions of Chapter 220.13 of the Florida Statutes. The Foundation is exempt under Section 509(a)(3) of the Internal Revenue



## Notes to Combined Financial Statements (continued)

1. OPERATIONS AND ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

Code. Accordingly, income earned in furtherance of the Organization's tax-exempt purpose is exempt from federal and state income taxes. Intermed America, Inc. is a taxable entity. No provision has been made for income taxes since the amount is immaterial.

## ACCRUED EMPLOYEE BENEFITS

The Organization has a plan for granting paid absences which combines all time normally granted for vacations and holidays. The benefits are accrued monthly and presented in the financial statements as a current liability.

## RESTRICTED FUND

The Restricted Fund consists of specific purpose donor restricted assets.

## DEBT ISSUE COSTS

Debt issue costs are amortized over the term of the related obligations using the straight-line method and the related amortization is included in depreciation and amortization expense.

## RECLASSIFICATIONS

Certain reclassifications were made to the 1993 financial statements to conform to the 1994 presentation. These reclassifications had no effect on excess of revenue over expenses.

## 2. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods are used by the Organization in estimating the market value disclosures for certain financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates market value.

Short-term investments: The values for U.S. Government securities which comprise short-term investments are based on quoted market prices.

## Notes to Combined Financial Statements (continued)

## 2. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Assets whose use is limited: The carrying amount of assets whose use is limited, which consist primarily of cash and cash equivalents and U.S. Government securities, approximates market value. Market value for U.S. Government securities is estimated based on quoted market prices for those or similar investments.

Long-term debt: The fair value of the Organization's long-term debt is based on the quoted market prices for the outstanding issues.

The carrying amount and market values of the Organization's financial instruments at August 31, 1994 are as follows:

	CARRYING AMOUNT	MARKET VALUE
----- (In Thousands)		
Cash and cash equivalents	\$ 6,903	\$ 6,903
Short-term investments	10,305	10,204
Assets whose use is limited	16,412	16,418
Long-term debt, less escrowed funds	83,904	93,289

## 3. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited consist of:

	AUGUST 31	
	1993	1994
----- (In Thousands)		
Assets held for payment of bond principal and interest (Bond Fund)	\$ 4,634	\$ 4,742
Assets held to provide a reserve for the payment of principal and interest (Reserve Fund)	10,409	10,109
Assets held for payment of construction in progress (Acquisition Fund)	1,638	-
Asset held under self-insurance trust arrangements	1,407	1,561
	-----	-----
	18,088	16,412
Less current portion	(4,634)	(5,070)
	-----	-----
	\$13,454	\$11,342
	=====	=====

## Notes to Combined Financial Statements (continued)

## 3. ASSETS WHOSE USE IS LIMITED (CONTINUED)

Assets held under self-insurance trust arrangements are amounts designated by the Board of Directors to pay for medical malpractice, workers' compensation and general liability claims within the deductible provisions of the insurance coverage.

Assets whose use is limited consist of United States Government securities, money market funds invested in United States Government securities, and cash and repurchase agreements. All such investments are carried at cost plus accrued interest.

## 4. LONG-TERM DEBT

The Organization was obligated under long-term debt agreements as follows:

	AUGUST 31	
	1993	1994
	-----	
	(In Thousands)	
Industrial Development Revenue Bonds, Series 1991	\$21,306	\$21,124
Industrial Development Revenue Refunding Bonds:		
Series 1988	5,040	5,040
Series 1987	53,093	53,098
Series 1985, Serial and Term Bonds	54,522	53,251
Series 1985, Compound Interest Bonds	3,588	3,943
Other	267	98
Escrowed investments for retirement of bonds	(52,365)	(52,650)
	-----	-----
	85,451	83,904
Less current portion	(1,557)	(1,645)
	-----	-----
	\$83,894	\$82,259
	=====	=====

Industrial Development Revenue Bonds and Industrial Development Revenue Refunding Bonds described above are net of unamortized issue discounts at August 31, 1993 and 1994 of \$670,000 and \$621,800, respectively.

All bonds were issued pursuant to a Master Trust Indenture entered into between the Obligated Group and an Arizona bank, as trustee. The Obligated Group consists of Phoenix Baptist Hospital and Medical Center, Inc., Medical Environments, Inc., Northwest Development, Inc., and

## Notes to Combined Financial Statements (continued)

## 4. LONG-TERM DEBT (CONTINUED)

Manatee Hospitals and Health Systems, Inc. Each member of the Obligated Group has issued indebtedness under the provisions of the Master Trust Indenture, which constitute separate issues of each issuer. The indebtedness of each issuer is collateralized by a deed of trust and mortgage and a security agreement granting security interests on certain encumbered property of Phoenix Baptist Hospital and Manatee Memorial Hospital.

The Master Trust Indenture provides for the joint and several liability on the part of each Obligated Group member for the payment of any notes issued under the Master Trust Indenture (see Note 8). The Master Trust Indenture places certain restrictions on the operations of the Obligated Group, which, among other things, includes minimum debt service coverage ratios, limits on encumbrances and liens, limits on additional indebtedness, and minimum insurance coverage.

In 1985, the Obligated Group refunded Series 1984 Bonds in advance of the scheduled maturity dates and was legally released from being the primary obligor on the Series 1984 Bonds. A portion of the proceeds from the Series 1985 Revenue Refunding Bonds was used to purchase government securities that were placed in a depository trust. The earnings and principal maturities of the securities in the depository trust will be sufficient to provide timely and adequate funds for the payment of all principal and interest on the refunded Series 1984 Bonds. Therefore, these assets and the Series 1984 Bonds (principal amount of \$52,375,000 and \$51,650,000 as of August 31, 1993 and 1994, respectively) are not included in the Organization's financial statements. A portion of the proceeds from the Series 1985 Revenue Refunding Bonds are held by the trustee in the Reserve Fund solely as security for the Series 1985 Revenue Refunding Bonds. The Series 1985 Revenue Refunding Bonds bear interest at rates ranging from 8.30% to 9.75%, payable annually with principal due September 1, 2014.

The proceeds of the Series 1987 Bonds were used to pay issuance costs and the remainder was used to purchase government securities which have been deposited into an escrow account administrated by the trustee. The investment income from the government securities, along with the principal, will be used for payment of interest on the Series 1987 Bonds through September 1, 1995, at which time the remaining proceeds will be used to partially redeem the serial and term bonds of the Series 1985 Bonds and redeem the compound interest bonds of the Series 1985 Bonds. Also on September 1, 1995 the Organization will begin paying debt service on the 1987 Bonds. Deposits with the trustee for debt service payments after the crossover date of September 1, 1995 will be equal to 10% of the aggregate principal amount of the Series 1987 Bonds. The Series 1987 Bonds bear interest from 8.00% to 8.25%, payable semiannually and principal payable annually beginning September 1, 2002 through September 1, 2014.

## Notes to Combined Financial Statements (continued)

## 4. LONG-TERM DEBT (CONTINUED)

The proceeds of the Series 1988 Bonds were used to pay issuance costs and the remainder to purchase government securities to be deposited in an escrow account. The earnings and principal will be used primarily for payment of interest and principal on the serial and term bonds of the Series 1985 through September 1, 1998. The Series 1988 Bonds bear interest from 7.00% to 7.20%, payable semiannually with principal payable semiannually beginning February 15, 1999 through September 1, 2001.

The proceeds of the Series 1991 Bonds were used to finance the costs of constructing and equipping a new surgery center and the first two floors of an adjacent medical office building, fund the Reserve Fund, pay interest on the Series 1991 Bonds during the estimated construction period, and pay issuance costs. The Series 1991 Bonds bear interest from 8.25% to 9.25% and mature at various dates through 2021.

Future maturities of long-term debt, including sinking fund requirements, are as follows:

YEAR -----	AMOUNT ----- (In Thousands)
1995	\$1,645
1996	1,762
1997	1,966
1998	2,105
1999	2,270

During 1993 and 1994, gross interest costs incurred approximated \$12,401,000 and \$12,261,000, respectively. Investment income earned on the escrowed funds established with proceeds of the qSeries 1987 Bonds is recorded as a reduction to interest expense and approximated \$4,622,000 and \$4,651,000 in 1993 and 1994, respectively. The Organization paid \$11,221,000 and \$11,799,000 during 1993 and 1994, respectively. The Organization capitalized interest of \$170,000 during 1994.

At August 31, 1994, the Organization has available a \$1,500,000 line of credit. No amounts were outstanding under this agreement at August 31, 1994.

## Notes to Combined Financial Statements (continued)

## 5. TRANSACTIONS WITH AFFILIATED ORGANIZATIONS

The amounts due from affiliated organizations reflected in the combined balance sheets relate to transactions with BHHS and other affiliates and generally represent working capital advances. The ultimate recoverability of amounts due from affiliated organizations is dependent upon those affiliates' ability to generate cash flow from operations sufficient in amount to support continuing operations and repay working capital advances. Interest is calculated on the outstanding balance in the intercompany account at the beginning of each month based upon the prime rate of Bank One Arizona. Intercompany interest income of \$455,000 and \$879,169 in 1993 and 1994 and data processing fees of \$1,914,000 and \$1,856,000 in 1993 and 1994, are included in other revenue and operating expenses, respectively, in the accompanying combined statements of revenue and expenses.

Allocated costs represent the Organization's share of the costs incurred by BHHS in providing accounting, administrative, consulting and other services to its affiliates.

## 6. MALPRACTICE INSURANCE

Under its occurrence-basis commercial insurance coverage, the Organization is liable for specified deductible provisions up to a maximum of \$100,000 per claim. The Organization funds coverage for the deductible provisions based on actuarial determinations and deposits such funds into a revocable trust account.

Losses from asserted claims and from unasserted claims identified under the Organization's incident reporting system are accrued based on estimates that incorporate the Organization's past experience as well as other considerations including the nature of each claim or incident. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified under the incident reporting system has been made because the amount is not reasonably estimable. In management's opinion, any such incidents would not have a material adverse effect on the operations or financial position of the Organization.

## 7. PENSION PLAN

The Organization has a defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and the employee's highest compensation for any five years of employment. The Organization's funding policy is to contribute annually at least the

## Notes to Combined Financial Statements (continued)

## 7. PENSION PLAN (CONTINUED)

minimum amount that should be funded in accordance with the provisions of ERISA. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The plan's funded status and amounts recognized in the Organization's combined balance sheets as of August 31 are as follows:

	1993	1994
Actuarial present value of benefit obligations as of June 30:		
Accumulated benefit obligation, including vested benefits of \$16,761,644 and \$16,522,393 for 1993 and 1994, respectively	\$ 17,869,077	\$ 17,645,529
Projected benefit obligation for service rendered to date	\$(21,455,741)	\$(20,131,971)
Plan assets at fair value, primarily listed stock and U.S. Obligations	14,586,842	15,696,103
Projected benefit obligation in excess of plan assets	(6,868,899)	(4,435,868)
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions	4,320,460	1,388,615
Unrecognized net transition obligation	488,108	433,874
Pension plan funding for July and August	(2,060,331) 88,000	(2,613,379) 111,303
Accrued Pension Costs Included in Accrued Employee Compensation and Related Liabilities	\$ (1,972,331)	\$ (2,502,076)
Net pension cost included the following components:		
Service cost--benefits earned during the period	\$ 1,202,681	\$ 1,334,715
Interest cost on projected benefit obligation	1,494,834	1,743,139
Actual return on plan assets	(1,174,581)	(142,628)
Net amortization and deferral	284,237	(842,035)
Net Periodic Pension Cost	\$ 1,807,171	\$ 2,093,191

## Notes to Combined Financial Statements (continued)

## 7. PENSION PLAN (CONTINUED)

Significant actuarial assumptions used in measuring benefit obligations and the expected return on plan assets are as follows:

	1993	JULY 1 1994
	-----	
Weighted-average discount rate	8.5 %	8.25%
Weighted-average rate of compensation increase	4.75%	4.75%
Expected rate of return on assets	9.0 %	9.0%

## 8. COMMITMENTS AND CONTINGENCIES

The Organization is a member of an Obligated Group which, at August 31, 1994, consists of Medical Environments, Inc., Phoenix Baptist Hospitals and Medical Center, Inc. (Phoenix Baptist), Northwest Development, Inc., and Manatee Hospitals and Health Systems, Inc. This group is obligated for the payment of principal and interest on bonds issued under a Master Trust Indenture (see Note 4). As of August 31, 1994, the Organization is contingently liable for debt service payments on outstanding bonds totaling \$90,883,000 which are payable by other members of the Obligated Group. In the opinion of management of the Organization, no contingent payments will be made by the Organization on outstanding bonds of the other members of the Obligated Group.

The future minimum lease payments under noncancelable operating leases with terms greater than one year are as follows:

YEAR	OPERATING AMOUNT
-----	-----
	(In Thousands)
1995	\$1,243
1996	688
1997	352
1998	132
1999	12
	-----
	\$2,427
	=====

Rental expense on operating leases was approximately \$1,677,000 and \$1,807,000 for 1993 and 1994, respectively.



## Notes to Combined Financial Statements (continued)

## 9. SUBSEQUENT EVENT

Subsequent to year end, Manatee Hospitals and Health Systems, Inc. entered into negotiations for a letter of intent to sell all assets of the Organization. The anticipated sale will be contingent upon the completion of due diligence by the buyer and applicable regulatory approvals. It is anticipated that the Organization will recognize a gain on this sale.

## 10. UNAUDITED INTERIM FINANCIAL STATEMENTS

The unaudited interim combined financial statements include all adjustments, consisting only of normal recurring accruals, which the Organization considers necessary for a fair presentation of the financial position of the Organization as of March 31, 1995 and the results of operations for the seven-month periods ended March 31, 1994 and 1995, as presented in the accompanying unaudited interim combined financial statements.

As described in Note 9, the Organization is negotiating to sell all its assets to Universal Health Services, Inc. (UHS). In connection with the proposed sale, the Organization is being jointly managed by BHHS and UHS. The Organization paid UHS management fees of \$500,000 which are included in supplies and other expenses in the statement of revenue and expenses for the seven-month period ended March 31, 1995.

As described in Note 4, the proceeds of the Series 1987 Bonds were used to pay issuance costs and the remainder was used to purchase government securities which have been deposited into an escrow account. The government securities matured in February 1995. Under the terms of the escrow agreement, the Organization cannot reinvest the proceeds of the investments that matured in February 1995. Consequently, the Organization will not recognize any investment earnings on these funds between February 1995 and September 1, 1995.

During November 1994, the Organization transferred \$200,000 from its restricted fund to the Manatee Memorial Hospital Foundation, Inc. (an affiliated organization).

\$150,000,000

NO DEALER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED BY THE COMPANY TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS IN CONNECTION WITH THE OFFER MADE BY THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OR SOLICITATION BY ANYONE IN ANY STATE IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED OR WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO OR TO ANYONE TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION.

UNIVERSAL HEALTH SERVICES, INC.

DEBT SECURITIES

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 PROSPECTUS  
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## 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 Notes offered hereby, other than underwriting discounts and commissions:

Registration Fee -- Securities and Exchange Commission . . . . .	\$ 51,724.14
Securities rating service fee . . . . .	\$ 40,000
Blue Sky fees and expenses . . . . .	\$ 20,000
Accountants' fees and expenses . . . . .	\$140,000
Legal fees and expenses . . . . .	\$100,000
Printing and engraving expenses . . . . .	\$ 7,500
Trustee Fees . . . . .	\$ 5,000
Miscellaneous . . . . .	\$35,775.86
	-----
Total . . . . .	\$400,000.00
	=====

## 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 Standard Underwriting Provisions and Term Agreement.
4.1	--	Form of Indenture under which the Debt Securities are to be issued.
4.2	--	Form of Note (included in Exhibit 4.1).
5	--	Opinion of Fulbright & Jaworski L.L.P.
12	--	Computation of Ratio of Earnings to Fixed Charges.
23.1	--	Consent of Arthur Andersen LLP.
23.2	--	Consent of Ernst & Young L.L.P.
23.3	--	Consent of Fulbright & Jaworski L.L.P. (included in Exhibit 5.)
24	--	Power of Attorney (included on signature page).
25	--	Statement of Eligibility of the Trustee on Form T-1.

- 99.1 - Asset Exchange Agreement among C/HCA Development, Inc., Universal Health Services, Inc., Aiken Regional Medical Centers, Inc., Dallas Family Hospital, Inc., Westlake Medical Center, Inc. and UHS of Delaware, Inc., as amended.

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 DULY 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 JUNE 14, 1995.

UNIVERSAL HEALTH SERVICES, INC.

By: Alan B. Miller  
 -----  
 Alan B. Miller  
 Chairman of the Board, President  
 & Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Alan B. Miller and Kirk E. Gorman his true and lawful attorneys-in-fact and agents, each acting alone, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Registration Statement, including post-effective amendments, and to file the same, with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, and hereby ratifies and confirms all that said attorneys-in-fact and agents, each acting alone, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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)	June 14, 1995
Alan B. Miller		
Leonard W. Cronkhite, Jr., M.D. -----	Director	June 14, 1995
Leonard W. Cronkhite, Jr., M.D.		

SIGNATURE -----	TITLE -----	DATE ----
John H. Herrell ----- John H. Herrell	Director	June 14, 1995
Robert H. Hotz ----- Robert H. Hotz	Director	June 14, 1995
Martin Myerson ----- Martin Myerson	Director	June 14, 1995
Sidney Miller ----- Sidney Miller	Director	June 14, 1995
Anthony Pantaleoni ----- Anthony Pantaleoni	Director	June 14, 1995
Kirk E. Gorman ----- Kirk E. Gorman	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	June 14, 1995

Exhibit	Page
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1	Form of Standard Underwriting Provisions and Term Agreement . . . . .
4.1	Form of Indenture under which the Debt Securities are to be issued . . . . .
4.2	Form of Note (included in Exhibit 4.1) . . . . .
5	Opinion of Fulbright & Jaworski L.L.P. . . . .
12	Computation of Ratio of Earnings to Fixed Charges . . . . .
23.1	Consent of Arthur Andersen LLP . . . . .
23.2	Consent of Ernst & Young L.L.P. . . . .
23.3	Consent of Fulbright & Jawsorski L.L.P. (included in Exhibit 5) . . . . .
24	Power of Attorney (included on signature page) . . . . .
25	Statement of Eligibility of the Trustee on Form T-1 . . . . .
99.1	Asset Exchange Agreement among C/HCA Development, Inc., Universal Health Services, Inc., Aiken Regional Medical Centers, Inc., Dallas Family Hospital, Inc., Westlake Medical Center, Inc. and UHS of Delaware, Inc., as amended . . . . .



\_\_\_\_\_, 1995

UNIVERSAL HEALTH SERVICES, INC.

DEBT SECURITIES

STANDARD UNDERWRITING AGREEMENT PROVISIONS

1. Introductory. Universal Health Services, Inc., a Delaware corporation (the "Company"), proposes to issue and sell from time to time certain of its debt securities registered under the registration statement referred to in Section 2(a) ("Registered Securities"). The Registered Securities will be issued under an indenture, dated as of \_\_\_\_\_, 1995 (such indenture as amended or supplemented is herein referred to as the "Indenture"), between the Company and PNC Bank, N.A., Trustee, in one or more series, which series may vary as to interest rates, maturities, redemption provisions, selling prices and other terms, with all such terms for any particular series of the Registered Securities being determined at the time of sale. Particular series of the Registered Securities will be sold pursuant to a Terms Agreement referred to in Section 3, for resale in accordance with terms of offering determined at the time of sale.

The Registered Securities involved in any such offering are hereinafter referred to as the "Securities." The firm or firms which agree to purchase the Securities are hereinafter referred to as the "Underwriters" of such Securities, and the representative or representatives of the Underwriters, if any, specified in a Terms Agreement referred to in Section 3 are hereinafter referred to as the "Representatives"; provided, however, that if the Terms Agreement does not specify any representative of the Underwriters, the term "Representatives," as used in this Agreement (other than in the second sentence of Section 3), shall mean the Underwriters.

2. Representations and Warranties of the Company. The Company represents and warrants to, and agrees with, each Underwriter that:

(a) the Company is permitted to use Form S-3 under the Securities Act of 1933, as amended (the "Act"), and has filed with the Securities and Exchange Commission (the "Commission") a registration statement on such Form (the file number of which is set forth in the Terms Agreement), which has become effective, for the registration under the Act of the Registered Securities. Such registration statement, as amended at the date of this Agreement, meets the requirements set forth in Rule 415(a)(1)(x) under the Act and complies in all other material respects with said Rule. Such registration statement, including the exhibits thereto, as amended at the date of any Terms Agreement, is hereinafter called the "Registration Statement" and the prospectus included in the Registration Statement, as supplemented to reflect the terms of the Securities and the plan of distribution thereof, in the form in which it shall be filed with the Commission pursuant to Rule 424(b) is hereinafter called the "Prospectus." Any reference herein to the Registration Statement or the Prospectus shall be deemed to include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 which were filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), on or before the date of this Agreement or the date of the Prospectus, as the case may be, and any reference herein to the terms "amend," "amendment" or "supplement" with respect to the Registration Statement or the Prospectus shall be deemed to include the filing of any document under the Exchange Act after the date of this Agreement or the date of the Prospectus, as the case may be, deemed to be incorporated therein by reference;

(b) as of the date of any Terms Agreement, when the Prospectus is first filed pursuant to Rule 424(b) under the Act, when, prior to the time of purchase (as defined in Section 3), any amendment to the Registration Statement becomes effective (including the filing of any document incorporated by reference in the Registration Statement) and at the time of purchase, the Registration Statement and the Prospectus will fully comply in all material respects with the provisions of the Act and the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), and the Registration Statement will 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 will 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, in light of the circumstances under which they were made, not misleading; provided,

however, that the Company makes no warranty or representation with respect to any statement contained in the Registration Statement or the Prospectus in reliance upon and in conformity with information concerning the Underwriters and furnished in writing by or on behalf of any Underwriter through the Representatives to the Company expressly for use in the Registration Statement or the Prospectus; the documents incorporated by reference in the Prospectus, at the time they were filed with the Commission, complied in all material respects with the requirements of the Exchange Act, and do 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, in light of the circumstances under which they were made, not misleading;

(c) as of the date of any Terms Agreement, the Company has an authorized capitalization as set forth under the heading entitled "Actual" in the section of the Registration Statement and the Prospectus entitled "Capitalization" and, as of the time of purchase, the Company shall have an authorized capitalization as set forth under the heading entitled "As Adjusted" in the section of the Registration Statement and the Prospectus entitled "Capitalization"; all of the issued and outstanding shares of capital stock of the Company and of each Subsidiary (as defined below) have been duly and validly authorized and issued and are fully paid and non-assessable; each of the Company and each Subsidiary that is a corporation have been duly incorporated and is validly existing as a corporation in good standing under the laws of its respective state of incorporation, and each Subsidiary that is a partnership has been duly organized and is validly existing under the partnership laws of its respective state of organization, in each case with full power and authority to own its properties and conduct its business as described in the Registration Statement the Prospectus, to execute and deliver the Terms Agreement and the Indenture and to issue and sell the Securities as contemplated in the Terms Agreement;

(d) the Company and each of its subsidiaries (the "Subsidiaries" which term shall be deemed to include, solely for purposes of this Agreement, Universal Health Realty Income Trust) are duly qualified or licensed by and are in good standing in 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 on the operations, business or condition of the Company and its Subsidiaries, taken as a whole; and the Company

and each of its Subsidiaries are in compliance in all material respects with the laws, orders, rules, regulations and directives issued or administered by such jurisdictions;

(e) neither the Company nor any of its Subsidiaries 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), its respective charter or by-laws or in the performance or observance of any obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, bank loan or credit agreement or other agreement or instrument to which the Company or any of its Subsidiaries is a party or by which any of them is bound, the effect of any of which could have a material adverse effect on the operations, business or condition of the Company and its Subsidiaries, taken as a whole; and the execution, delivery and performance of the Terms Agreement and the Indenture and the issuance of the Securities and consummation of the transactions contemplated hereby and thereby will not conflict with, or result in any breach of or constitute a default under (nor constitute any event which with notice, lapse of time, or both would constitute a breach of, or default under), any provisions of the charter or by-laws of the Company or any of its Subsidiaries or under any provision of any license, indenture, mortgage, deed of trust, bank loan or credit agreement or other material 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 federal, state, local or foreign law, regulation or rule or any decree, judgment or order applicable to the Company or any of its Subsidiaries;

(f) the Indenture has been duly authorized, executed and delivered by the Company and, assuming due execution by the Trustee, is a legal, valid and binding agreement of the Company, enforceable in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and general principles of equity;

(g) the Securities have been duly authorized by the Company and when executed and delivered by the Company will constitute legal, valid and binding obligations of the Company enforceable in accordance with their terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and general principles of equity;

(h) as of the date of any Terms Agreement, the applicable Terms Agreement has been duly authorized, executed and delivered by the Company;

(i) the Securities and the Indenture conform in all material respects to the descriptions thereof contained in the Registration Statement and Prospectus;

(j) no approval, authorization, consent or order of or filing with any national, state or local governmental or regulatory commission, board, body, authority or agency is required in connection with the issuance and sale of the Securities as contemplated hereby other than compliance with the Act and the Trust Indenture Act and the qualification under the securities or blue sky laws of the various jurisdictions in which the Securities are being offered by the Underwriters;

(k) Arthur Andersen L.L.P., whose reports on the consolidated financial statements of the Company and its Subsidiaries and on the financial statements of Aiken Regional Medical Centers, Inc., and Ernst & Young whose reports on the financial statements of Manatee Memorial Hospital, are filed with the Commission as part of the Registration Statement and Prospectus, are independent public accountants as required by the Act and the applicable published rules and regulations thereunder;

(l) each of the Company and its Subsidiaries has all necessary licenses, authorizations, consents and approvals and has made all necessary filings required under any federal, state, local or foreign law, regulation or rule, and has obtained all necessary authorizations, consents and approvals from other persons, in order to conduct its respective business; neither the Company nor any of its Subsidiaries is in violation of, or in default under, any such license, authorization, consent or approval or any federal, state, local or foreign law, regulation or rule or any decree, order or judgment applicable to the Company or any of its Subsidiaries the effect of which could have a material adverse effect on the Company and its Subsidiaries taken as a whole;

(m) all legal or governmental proceedings, contracts or documents of a character required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement have been so described or filed as required;

(n) there are no actions, suits or proceedings pending or, to its knowledge, threatened against the Company or any of its Subsidiaries or any of their respective properties, at law or in equity, or before or by any federal, state, local or foreign governmental or regulatory commission, board, body, authority or agency which could result in a judgment, decree or order having a material adverse effect on the business, condition, prospects or property of the Company and its Subsidiaries taken as a whole;

(o) the audited financial statements included in the Registration Statement and the Prospectus present fairly the consolidated financial position of the Company and its Subsidiaries as of the dates indicated and the consolidated results of operations and cash flows of the Company and its Subsidiaries for the periods specified; such financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis during the periods involved;

(p) each of the Company and each of its hospitals that participate in federal Medicare and Medicaid programs is a certified participating provider in and under all federal Medicare and Medicaid programs; and, each of the Company and each of its Subsidiaries and hospitals is a certificated participating provider, to the extent required, in all other third-party payment programs from which it receives revenues (collectively, "Programs"); no action, investigation or proceeding is pending, or to the best of the Company's knowledge, threatened to suspend, limit, terminate, condition, or revoke the status of any of the Company or any of its Subsidiaries as a provider in any such Program, and neither the Company nor any of its Subsidiaries has been provided notice by any third-party payor or any administrator on behalf thereof of its intention to suspend, limit, terminate, revoke, condition or fail to renew in whole or in part or which action, investigation, proceeding, suspension, limitation, termination, revocation, condition, or failure of renewal, would singly or in the aggregate, have a material adverse effect on the Company and its Subsidiaries taken as a whole;

(q) subsequent to the respective dates as of which information is given in the Registration Statement and Prospectus, and except as may be otherwise stated in the Registration Statement or Prospectus, there has not been (A) any material and unfavorable change, financial or otherwise, in the business, properties, prospects, regulatory environment, results of

operations or condition (financial or otherwise), present or prospective, of the Company and its Subsidiaries taken as a whole, (B) any transaction, which is material to the Company and its Subsidiaries taken as a whole, contemplated or entered into by the Company or either of its Subsidiaries or (C) any obligation, contingent or otherwise, directly or indirectly, incurred by the Company or any of its Subsidiaries which is material to the Company and its Subsidiaries taken as a whole;

(r) the Company and each of its Subsidiaries have good title to all properties and assets owned by them and have good leasehold interests in each property and asset leased by them, in each case free and clear of all pledges, liens, encumbrances, security interests, charges, mortgages and defects, except as described in the Prospectus (including in the financial statements included therein and the documents incorporated by reference therein) and except as such do not materially affect the value of such property and as such do not interfere with the use made and proposed to be made of such properties by the Company and the Subsidiaries;

(s) the business, operations and facilities of the Company and each of the Subsidiaries have been and are being conducted in substantial compliance with all applicable laws, ordinances, rules, regulations, licenses, permits, approvals, plans, authorizations or requirements relating to occupational safety and health, or pollution, or protection of health or the environment, or reclamation (including, without limitation, those relating to emissions, discharges, releases or threatened releases of pollutants, contaminants or hazardous or toxic substances, materials or wastes into ambient air, surface water, groundwater or land, or relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of chemical substances, pollutants, contaminants or hazardous or toxic substances, materials or wastes, whether solid, gaseous or liquid in nature) or otherwise relating to remediating real property of any governmental department, commission, board, bureau, agency or instrumentality of the United States, any state or political subdivision thereof, or any foreign jurisdiction, and all applicable judicial or administrative agency or regulatory decrees, awards, judgments and orders relating thereto, except any violation thereof which would not, individually or in the aggregate, have a material adverse effect on the properties, assets, prospects, operations, business or condition (financial or otherwise) of the Company and the Subsidiaries, taken as a whole; and neither the Company nor any of the Subsidiaries has received any notice from a

governmental instrumentality or any third party alleging any violation thereof or liability thereunder (including, without limitation, liability for costs of investigating or remediating sites containing hazardous substances and/or damages to natural resources);

(t) there is no claim pending or, to the best knowledge of the Company, threatened or contemplated under any federal, state, local or foreign law, rule or regulation governing pollution or protection of the environment (the Environmental Laws) against the Company or any of the Subsidiaries which, if adversely determined, would have a material adverse effect on the properties, assets, prospects, operation, business or condition (financial or otherwise) of the Company and the Subsidiaries, taken as a whole; there are no past or present actions or conditions including, without limitation, the release of any hazardous substance or waste regulated under any Environmental Law that are likely to form the basis of any such claim against the Company or any of the Subsidiaries which, if adversely determined, would have a material adverse effect on the properties, assets, prospects, operation, business or condition (financial or otherwise) of the Company and the Subsidiaries, taken as a whole;

(u) the Company and each of the Subsidiaries have filed all federal or state income and franchise tax returns required to be filed and have paid all taxes shown thereon as due, and neither the Company nor any of its Subsidiaries is in default in any material respect in the payment of any taxes which were payable pursuant to said returns or any assessments with respect thereto; all material tax liabilities of the Company and the Subsidiaries are adequately provided for on the books of the Company and the Subsidiaries; and

(v) except as otherwise described in the Prospectus, the Company, either directly or through one or more Subsidiaries, has in effect, with financially sound insurers, insurance with respect to its business and properties and the business and properties of the Subsidiaries against loss or damage of the kind customarily insured against by corporations engaged in the same or similar businesses and similarly situated, of such type and in such amounts as are customarily carried under similar circumstances by such other corporations.

3. Purchase and Offering of Securities. The obligation of the Underwriters to purchase the Securities will be evidenced by an exchange of written communications (the "Terms



Agreement") at the time the Company determines to sell the Securities. The Terms Agreement will incorporate by reference the provisions of this Agreement, except as otherwise provided therein, and will specify (1) the firm or firms which will be Underwriters, (2) the names of any Representatives, (3) the principal amount of Securities to be purchased by each Underwriter and the purchase price to be paid by the Underwriters, (4) the terms of the Securities not already specified in the Indenture, (5) the time and date on which delivery of the Securities will be made to the Representatives for the accounts of the several Underwriters against payment by the several Underwriters through the Representatives of the purchase price in New York Clearing House funds (such time and date, or such other time and date not later than seven full business days thereafter as the Representatives and the Company agree to as to time and date for payment and delivery, being herein and in the Terms Agreement referred to as the "time of purchase"), (6) the place of delivery and payment and (7) such other matters, including any additional representations and warranties, agreements and/or conditions, as the Company and the Representatives may agree upon.

The obligations of the Underwriters to purchase the Securities will be several and not joint. The Securities delivered to the Underwriters at the time of purchase will be in definitive fully registered form, in such denominations and registered in such names as the Representatives may request.

Certificates for the Securities shall be registered in such names and in such denominations as the Representatives may request not less than one full Business Day(1) in advance of the Closing Date.

4. Certain Covenants of the Company: The Company hereby agrees:

(a) to furnish such information as may be required and otherwise to cooperate in qualifying the Securities for offering and sale under the securities or blue sky laws of such states as the Representatives may designate and to maintain such qualifications in effect as long as required for the distribution of the Securities, provided that the Company shall not be required to qualify as a foreign corporation or to

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(1) As used herein, "Business Day" shall mean a day in which the New York Stock Exchange is open for trading.

consent to the service of process under the laws of any such state (except service of process with respect to the offering and sale of the Securities); and to promptly advise the Representatives of the receipt by the Company of any notification with respect to the suspension of the qualification of the Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose;

(b) to make available to the Representatives in New York City, within one full Business Day after the execution of any Terms Agreement, and thereafter from time to time to furnish to the Underwriters, as many copies of the Prospectus (or of the Prospectus as amended or supplemented if the Company shall have made any amendments or supplements thereto after the date of such Terms Agreement) as the Underwriters may request for the purposes contemplated by the Act;

(c) to advise the Representatives promptly and (if requested by the Representatives) to confirm such advice in writing, (i) when any post-effective amendment to the Registration Statement becomes effective and (ii) when the Prospectus is filed with the Commission pursuant to Rule 424(b) under the Act (which the Company agrees to file in a timely manner under such Rule);

(d) to advise the Representatives promptly, confirming such advice in writing, of any request by the Commission for amendments or supplements to the Registration Statement or Prospectus or for additional information with respect thereto, or of notice of institution of proceedings for, or the entry of a stop order suspending the effectiveness of the Registration Statement and, if the Commission should enter a stop order suspending the effectiveness of the Registration Statement, to make every reasonable effort to obtain the lifting or removal of such order as soon as possible; to advise the Representatives promptly of any proposal to amend or supplement the Registration Statement or Prospectus including by filing any documents that would be incorporated therein by reference;

(e) to furnish to the Representatives and, upon request, to each of the other Underwriters during the period in which any of the Securities are outstanding (i) copies of any reports or other communications which the Company shall send to its holders of Securities or stockholders or shall from time to time publish or publicly disseminate, (ii) copies of all annual, quarterly and current reports filed with the Commission on Forms 10-K, 10-Q and 8-K, or such other similar form as may

be designated by the Commission, and (iii) such other information as the Representatives may reasonably request regarding the Company or its Subsidiaries;

(f) to advise the Underwriters promptly of the happening of any event known to the Company within the time during which a prospectus relating to the Securities is required to be delivered under the Act which, in the judgment of the Company, would require the making of any change in the Prospectus then being used, or in the information incorporated therein by reference, so that the Prospectus would not include 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 are made, not misleading, and, during such time, to prepare and furnish, at the Company's expense, to the Underwriters promptly such amendments or supplements to such Prospectus as may be necessary to reflect any such change and to furnish to the Representatives a copy of such proposed amendment or supplement before filing any such amendment or supplement with the Commission;

(g) to make generally available to its security holders, and to deliver to the Representatives, an earnings statement of the Company (which will satisfy the provisions of Section 11(a) of the Act) covering a period of twelve months beginning after the date of the applicable Terms Agreement as soon as is reasonably practicable after the termination of such twelve-month period;

(h) to furnish the Representatives and counsel for the Underwriters signed copies of the Registration Statement, as initially filed with the Commission, and of all amendments thereto (including all exhibits thereto and documents incorporated by reference therein) and sufficient conformed copies of the foregoing (other than exhibits) for distribution of a copy to each of the other Underwriters;

(i) to furnish to the Representatives as early as practicable prior to the time of purchase, but no later than two Business Days prior thereto, a copy of the latest available unaudited interim consolidated financial statements, if any, of the Company and its Subsidiaries which have been read by the Company's independent certified public accountants, as stated in their letter to be furnished pursuant to Section 6(b) below;

(j) to apply the net proceeds from the sale of the Securities in the manner set forth under the caption "Use of Proceeds" in the Prospectus;

(k) to pay all expenses, fees and taxes (other than any transfer taxes and fees and disbursements of counsel for the Underwriters except as set forth under Section 5 hereof and (iii) and (iv) below) in connection with (i) the preparation and filing of the Registration Statement, each Preliminary Prospectus, the Prospectus, and any amendments or supplements thereto, and the printing and furnishing of copies of each thereof to the Underwriters and to dealers (including costs of mailing and shipment), (ii) the preparation, issuance, execution, authentication and delivery of the Securities, (iii) the word processing and/or printing of this Agreement, the Terms Agreement, an Agreement Among Underwriters, any dealer agreements, any Statements of Information and Powers of Attorney, the Indenture, and the reproduction and/or printing and furnishing of copies of each thereof to the Underwriters and to dealers (including costs of mailing and shipment), (iv) the qualification of the Securities for offering and sale under state laws and the determination of their eligibility for investment under state law as aforesaid (including the legal fees and filing fees and other disbursements of counsel for the Underwriters) and the printing and furnishing of copies of any blue sky surveys or legal investment surveys to the Underwriters and to dealers, (v) any listing of the Securities on any securities exchange and any registration thereof under the Exchange Act, (vi) any fees payable to investment rating agencies with respect to the Securities, (vii) any filing for review of the public offering of the Securities by the National Association of Securities Dealers, Inc. and (viii) the performance of the Company's other obligations hereunder;

(l) to furnish to the Representatives, before filing with the Commission subsequent to the date of the applicable Terms Agreement and during the period referred to in paragraph (f) above, a copy of any document proposed to be filed pursuant to Sections 13, 14 or 15(d) of the Exchange Act; and

(m) from the date of any Terms Agreement and until the date that is ten days after the time of purchase specified in such agreement, the Company will not, without the Representatives' prior consent, offer, sell, contract to sell or otherwise dispose of debt securities of the Company covered by the

Registration Statement or another registration statement filed by the Company under the Act.

5. Reimbursement of Underwriters' Expenses: On or after the execution of an applicable Terms Agreement, if the Securities are not delivered for any reason other than the termination of the applicable Terms Agreement pursuant to the first paragraph of Section 8 hereof or the default by one or more of the Underwriters in its or their respective obligations hereunder, the Company shall reimburse the Underwriters for all of their out-of-pocket expenses in respect of the offering contemplated by such Terms Agreement, including the fees and disbursements of their counsel.

6. Conditions of Underwriters' Obligations: The several obligations of the Underwriters under any Terms Agreement are subject to the accuracy of the representations and warranties on the part of the Company on the date thereof and at the time of purchase, the performance by the Company of its obligations under the Terms Agreement (including those set forth herein) and to the following conditions:

(a) The Company shall furnish to the Representatives at the time of purchase an opinion of Fulbright & Jaworski, L.L.P., counsel for the Company, addressed to the Underwriters and dated the time of purchase with reproduced copies thereof for each of the other Underwriters and in form satisfactory to Cahill Gordon & Reindel, counsel for the Underwriters, stating that:

(i) the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware, with full corporate power and authority to own its properties and conduct its business as described in the Registration Statement and the Prospectus and to issue, sell and deliver the Securities as contemplated in the Terms Agreement;

(ii) the Company is duly qualified in each jurisdiction in which it conducts business and in which the failure, individually or in the aggregate, to be so qualified could have a material adverse effect on the operations, business or condition of the Company and its Subsidiaries taken as a whole, and the Company is duly qualified, and is in good standing, in each jurisdiction in which it owns

or leases real property or maintains an office and in which such qualification is necessary;

(iii) the applicable Terms Agreement has been duly authorized, executed and delivered by the Company;

(iv) the Indenture has been duly authorized, executed and delivered by the Company, and, assuming the due execution thereof by the Trustee, is a legal, valid and binding agreement of the Company enforceable in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and general principles of equity;

(v) the Securities have been duly authorized by the Company and, when executed and authenticated in accordance with the terms of the Indenture and delivered to and paid for by the Underwriters, will be legal, valid and binding obligations of the Company enforceable in accordance with their terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally and general principles of equity;

(vi) the Company has an authorized capital stock as set forth in the Registration Statement and the Prospectus; the outstanding shares of capital stock of the Company have been duly and validly authorized and issued and are fully paid, non-assessable and free of statutory and contractual preemptive rights;

(vii) the Securities and the Indenture conform in all material respects to the descriptions thereof contained in the Registration Statement and the Prospectus;

(viii) the Registration Statement and the Prospectus (except as to the financial statements and schedules and other financial and statistical data contained or incorporated by reference therein and the Trustee's Statement of Eligibility on Form T-1, as to which such counsel need not express an opinion) comply as to form in all material respects with the requirements of the Act and the Trust Indenture Act;

(ix) the Registration Statement has become effective under the Act and, to the best of such counsel's

knowledge, no stop order proceedings with respect thereto are pending or threatened under the Act;

(x) no approval, authorization, consent or order of or filing with any national, state or local governmental or regulatory commission, board, body, authority or agency is required in connection with the issue or sale of the Securities by the Company as contemplated by the applicable Terms Agreement (except such counsel need not express an opinion as to any necessary qualification under the state securities or blue sky laws of the various jurisdictions in which the Securities are being offered by the Underwriters);

(xi) the execution, delivery and performance of the applicable Terms Agreement and the Indenture and the issuance of the Securities by the Company and the consummation by the Company of the transactions contemplated hereby and thereby do not and will not conflict with, or result in any breach of, or constitute a default under (nor constitute any event which with notice, lapse of time, or both would constitute a breach of or default under), any provisions of the charter or by-laws of the Company or any of its Subsidiaries or under any provision of any license, indenture, mortgage, deed of trust, bank loan, credit agreement nor other agreement or instrument known to such counsel after reasonable inquiry 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 any of its Subsidiaries;

(xii) to the best of such counsel's knowledge, the Company is not 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 is a party or by which it or its properties may be bound or affected or under any law, regulation or rule or any decree, judgment or order applicable to the Company;

(xiii) to the best of such counsel's knowledge, there are no contracts, licenses, agreements, leases or documents of a character which are required to be filed as

exhibits to the Registration Statement or to be summarized or described in the Prospectus which have not been so filed, summarized or described;

(xiv) to the best of such counsel's knowledge, there are no actions, suits or proceedings pending or threatened against the Company or any of its Subsidiaries or any of their respective properties, at law or in equity or before or by any commission, board, body, authority or agency which are required to be described in the Prospectus but are not so described;

(xv) the documents incorporated by reference in the Registration Statement and Prospectus, when they were filed (or, if an amendment with respect to any such document was filed, when such amendment was filed), complied as to form in all material respects with the Exchange Act (except as to the financial statements and schedules and other financial and statistical data contained or incorporated by reference therein as to which such counsel need not express an opinion);

(xvi) the Indenture has been duly qualified under the Trust Indenture Act; and

(xvii) such counsel have participated in conferences with officers and other representatives of the Company, representatives of the independent public accountants of the Company and representatives of the Underwriters at which the contents of the Registration Statement and Prospectus were discussed and, although such counsel is not passing upon and does not assume responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement or Prospectus (except as and to the extent stated in subparagraphs (vi) and (vii) above), on the basis of the foregoing (relying as to materiality to a large extent upon the opinions of officers and other representatives of the Company) nothing has come to the attention of such counsel that causes them to believe that the Registration Statement or any amendment thereto at the date of the applicable Terms Agreement 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 or any supplement thereto at the date of the applicable Terms Agreement, and at all times up to and including the time of purchase, 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, in light of the circumstances under which they were made, not misleading (it being understood that such counsel need not express an opinion with respect to the financial statements and schedules and other financial and statistical data included in the Registration Statement or Prospectus or with respect to the Trustee's Statement of Eligibility on Form T-1).

(b) The Company shall furnish to the Representatives at the time of purchase an opinion of Bruce R. Gilbert, Esq., General Counsel for the Company, addressed to the Underwriters and dated the time of purchase with reproduced copies thereof for each of the other Underwriters and in form satisfactory to Cahill Gordon & Reindel, counsel for the Underwriters, stating 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 on the operations, business or condition of the Company and its Subsidiaries taken as a whole, 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 of the Subsidiaries is a corporation duly organized and validly existing in good standing under the laws of the jurisdiction of its organization, with full corporate or partnership power and authority to own its respective properties and to conduct its business as described in the Registration Statement and the Prospectus (and any amendment or supplement thereto); and

(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 any of its Subsidiaries.

(c) The Representatives shall have received from Arthur Andersen L.L.P. and Ernst & Young, letters dated as of the time of purchase and addressed to the Underwriters (with reproduced copies for each of the other Underwriters) in the forms approved by the Representatives prior to the execution of the applicable Terms Agreement.

(d) The Representatives shall have received at the time of purchase the favorable opinion of Cahill Gordon & Reindel, counsel for the Underwriters, dated the time of purchase as to the matters referred to in subparagraphs (iii), (iv), (v), (vii), (viii) (ix), (xvi) of paragraph (a) of this Section 6.

In addition, such counsel shall state that such counsel have participated in conferences with officers and other representatives of the Company, counsel for the Company, representatives of the independent public accountants of the Company and representatives of the Underwriters at which the contents of the Registration Statement and Prospectus and related matters were discussed and, although such counsel is not passing upon and does not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement and Prospectus (except as to the matters referred to under subparagraph (vii) of paragraph (a) of this Section 6), on the basis of the foregoing (relying as to materiality to a large extent upon the opinions of officers and other representatives of the Company), no facts have come to the attention of such counsel which lead them to believe that either the Registration Statement or any amendment thereto at the date of the applicable Terms Agreement 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 or any supplement thereto as of the date of the applicable Terms Agreement 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, in light of the circumstances under which they were made, not misleading (it being understood that such counsel need not express any comment with respect to the financial statements and schedules and other financial and statistical data included in the

Registration Statement or Prospectus or with respect to the Trustee's Statement of Eligibility on Form T-1).

(e) No amendment or supplement to the Registration Statement or Prospectus, including documents deemed to be incorporated by reference therein, shall be filed or distributed to which the Representatives object in writing.

(f) Prior to the time of purchase (i) no stop order with respect to the effectiveness of the Registration Statement shall have been issued under the Act or proceedings initiated under Section 8(d) or 8(e) of the Act; (ii) the Registration Statement and all amendments thereto, or modifications thereof, if any, shall 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 (iii) the Prospectus and all amendments or supplements thereto, or modifications thereof, if any, shall not contain an untrue statement of material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading.

(g) Between the time of execution of the applicable Terms Agreement and the time of purchase, in the judgment of the Representatives, (i) no material and unfavorable change, financial or otherwise (other than as referred to in the Registration Statement and Prospectus on the date of the Terms Agreement), in the properties, assets, prospects, operation, business or condition of the Company and its Subsidiaries taken as a whole shall occur or become known and (ii) no transaction which is material and unfavorable to the Company shall have been entered into by the Company or any of its Subsidiaries.

(h) The Company will, at the time of purchase, deliver to the Representatives a certificate of two of its executive officers to the effect that the representations and warranties of the Company set forth in this Agreement and the conditions set forth in paragraph (f) and paragraph (g) have been met and are true and correct as of such date.

(i) The Company shall have furnished to the Representatives such other documents and certificates as to the accuracy and completeness of any statement in the Registration Statement and the Prospectus as of the time of purchase as the Representatives may reasonably request.

(j) The Company shall perform such of its obligations under the applicable Terms Agreement as are to be performed by the terms thereof at or before the time of purchase.

(k) Between the time of execution of the applicable Terms Agreement and the time of purchase, there shall not have occurred any downgrading, nor shall any notice have been given of (i) any intended or potential downgrading or (ii) any review or possible change that does not indicate an improvement, in the rating accorded any securities of or guaranteed by the Company or any Subsidiary of the Company by any "nationally recognized statistical rating organization", as that term is defined in Rule 436(g)(2) promulgated under the Act.

7. Effective Date of Terms Agreement; Termination: Any Terms Agreement shall become effective when the parties thereto have executed and delivered it.

The obligations of the several Underwriters under any Terms Agreement shall be subject to termination in the absolute discretion of the Representatives or any group of Underwriters (which may include the Representatives) which has agreed to purchase in the aggregate at least 50% of the principal amount of the Securities if, at any time prior to the time of purchase, trading in securities on the New York Stock Exchange shall have been suspended or minimum prices shall have been established on the New York Stock Exchange, or if a banking moratorium shall have been declared either by the United States or New York State authorities, or if the United States shall have declared war in accordance with its constitutional processes or there shall have occurred any material outbreak or escalation of hostilities or other national or international calamity or crisis of such magnitude in its effect on the financial markets of the United States as, in the judgment of the Representatives or in the judgment of such group of Underwriters, to make it impracticable to market the Securities covered by the applicable Terms Agreement.

If the Representatives or any group of Underwriters elect to terminate any Terms Agreement as provided in this Section 7, the Company and each other Underwriter shall be notified promptly by letter or telegram.

If the sale to the Underwriters of the Securities, as contemplated by the applicable Terms Agreement, is not carried out by the Underwriters for any reason permitted under such Terms Agreement or if such sale is not carried out because the

Company shall be unable to comply with any of the terms of such Terms Agreement, the Company shall not be under any obligation or liability under such Terms Agreement (except to the extent provided in Sections 4(k), 5 and 9 hereof), and the Underwriters shall be under no obligation or liability to the Company under this Agreement (except to the extent provided in Section 9 hereof) or to one another hereunder.

8. Increase in Underwriters' Commitments: If any Underwriter shall default in its obligation to take up and pay for the Securities to be purchased by it under any applicable Terms Agreement and if the aggregate principal amount of Securities which all Underwriters so defaulting shall have agreed but failed to take up and pay for does not exceed 10% of the total aggregate principal amount of Securities, the non-defaulting Underwriters shall take up and pay for (in addition to the aggregate principal amount of Securities they are obligated to purchase pursuant to the applicable Terms Agreement) the aggregate principal amount of Securities agreed to be purchased by all such defaulting Underwriters, as hereinafter provided. Such Securities shall be taken up and paid for by such non-defaulting Underwriter or Underwriters in such amount or amounts as the Representatives may designate with the consent of each Underwriter so designated or, in the event no such designation is made, such Securities shall be taken up and paid for by all non-defaulting Underwriters pro rata in proportion to the aggregate principal amount of Securities set opposite the names of such non-defaulting Underwriters in the applicable Terms Agreement.

Without relieving any defaulting Underwriter from its obligations hereunder, the Company agrees with the non-defaulting Underwriters that it will not sell any Securities under the applicable Terms Agreement unless all of the Securities are purchased by the Underwriters (or by substituted Underwriters selected by the Representatives with the approval of the Company or selected by the Company with the approval of the Representatives).

If a new Underwriter or Underwriters are substituted by the Underwriters or by the Company for a defaulting Underwriter or Underwriters in accordance with the foregoing provision, the Company or the Representatives shall have the right to postpone the time of purchase for a period not exceeding three business days in order that any necessary changes in the Registration Statement and the Prospectus and other documents may be effected.

The term Underwriter as used in this agreement shall refer to and include any Underwriter substituted under this Section 8 with like effect as if such substituted Underwriter had originally been named in the applicable Terms Agreement.

9. Indemnity by the Company and the Underwriters.

(a) The Company agrees to indemnify, defend and hold harmless each Underwriter, any person who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, each Underwriter's agents, employees, officers and directors and the agents, employees, officers and directors of any such controlling person (collectively, the "Underwriter indemnified parties") from and against any loss, expense, liability or claim (including the reasonable cost of investigation) which, jointly or severally, any such Underwriter indemnified party may incur under the Act, the Exchange Act or otherwise, insofar as such loss, expense, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or in the Registration Statement as amended by any post-effective amendment thereof by the Company) or in a Prospectus (the term Prospectus for the purpose of this Section 9 being deemed to include any Preliminary Prospectus, the Prospectus and the Prospectus as amended or supplemented by the Company), or arises out of or is based upon any omission or alleged omission to state a material fact required to be stated in either such Registration Statement or Prospectus or necessary to make the statements made therein not misleading, except insofar as any such loss, expense, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in and in conformity with information furnished in writing by any Underwriter through the Representatives to the Company expressly for use with reference to such Underwriter in such Registration Statement or such Prospectus or arises out of or is based upon any omission or alleged omission to state a material fact in connection with such information required to be stated in either such Registration Statement or Prospectus or necessary to make such information not misleading; provided, that, with respect to any Preliminary Prospectus, the indemnification contained in this paragraph (a) 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, expense, liability or claim arising from the sale of Registered Securities by such Underwriter to any person if a copy of the Prospectus shall not have been delivered to or sent to such person within

the time required by the Act and the regulations thereunder, and the untrue statement or alleged untrue statement or omission or alleged omission of a material fact contained in such Preliminary Prospectus was corrected in the Prospectus, provided that the Company shall have delivered the Prospectus to the Underwriters in requisite quantities on a timely basis to permit such delivery or sending.

If any action is brought against an Underwriter indemnified party in respect of which indemnity may be sought against the Company pursuant to the foregoing paragraph, such Underwriter indemnified party shall promptly notify the Company in writing of the institution of such action and the Company shall assume the defense of such action, including the employment of counsel and payment of expenses. Such Underwriter indemnified party shall have the right to employ its own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such Underwriter indemnified party unless the employment of such counsel shall have been authorized in writing by the Company in connection with the defense of such action or the Company shall not have employed counsel to have charge of the defense of such action or such Underwriter indemnified party or parties shall have reasonably concluded that there may be defenses available to it or them which are different from or additional to those available to the Company (in which case the Company shall not have the right to direct the defense of such action on behalf of the Underwriter indemnified party or parties), in any of which events such fees and expenses shall be borne by the Company and paid as incurred (it being understood, however, that the Company shall not be liable for the expenses of more than one separate counsel in any one action or series of related actions in the same jurisdiction representing the Underwriter indemnified parties who are parties to such action). Anything in this paragraph to the contrary notwithstanding, the Company shall not be liable for any settlement of any such claim or action effected without its written consent.

(b) Each Underwriter severally agrees to indemnify, defend and hold harmless the Company, its directors and officers and any person who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act from and against any loss, expense, liability or claim (including the reasonable cost of investigation) which, jointly or severally, the Company or any such person may incur under the Act or otherwise, insofar as such loss, expense, liability or claim arises out of or is based upon any untrue statement or alleged

untrue statement of a material fact contained in and in conformity with information furnished in writing by or on behalf of such Underwriter through the Representatives to the Company expressly for use with reference to such Underwriter in the Registration Statement or in a Prospectus, or arises out of or is based upon any omission or alleged omission to state a material fact in connection with such information required to be stated either in such Registration Statement or Prospectus or necessary to make such information not misleading.

If any action is brought against the Company or any such person in respect of which indemnity may be sought against any Underwriter pursuant to the foregoing paragraph, the Company or such person shall promptly notify such Underwriter in writing of the institution of such action and such Underwriter shall assume the defense of such action, including the employment of counsel and payment of expenses. The Company or such person shall have the right to employ its own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of the Company or such person unless the employment of such counsel shall have been authorized in writing by such Underwriter in connection with the defense of such action or such Underwriter shall not have employed counsel to have charge of the defense of such action or such indemnified party or parties shall have reasonably concluded that there may be defenses available to it or them which are different from or additional to those available to such Underwriter (in which case such Underwriter shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events such fees and expenses shall be borne by such Underwriter and paid as incurred (it being understood, however, that such Underwriter shall not be liable for the expenses of more than one separate counsel in any one action or series of related actions in the same jurisdiction representing the indemnified parties who are parties to such action). Anything in this paragraph to the contrary notwithstanding, no Underwriter shall be liable for any settlement of any such claim or action effected without the written consent of such Underwriter.

(c) If the indemnification provided for in this Section 9 is unavailable to an indemnified party under subsections (a) and (b) of this Section 9 in respect of any losses, expenses, liabilities or claims referred to therein, then each applicable 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,



expenses, liabilities or claims (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other hand from the offering of the Securities 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 Company on the one hand and of the Underwriters on the other in connection with the statements or omissions which resulted in such losses, expenses, liabilities or claims, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total proceeds from the offering (net of underwriting discounts and commissions but before deducting expenses) received by the Company bear to the underwriting discounts and commissions received by the Underwriters. The relative fault of the Company on the one hand and of the Underwriters on the other shall be determined by reference to, among other things, whether the untrue statement or alleged untrue statement of a material fact or omission or alleged omission relates to information supplied by the Company or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the losses, claims, damages and liabilities referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any claim or action.

(d) The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 9 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in subsection (c) above. 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 at which the Securities underwritten by it and distributed to the public were offered 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 their respective underwriting commitments and not joint.

(e) The indemnity and contribution agreements contained in this Section 9 and the covenants, warranties and representations of the Company contained in the applicable Terms Agreement shall remain in full force and effect regardless of any investigation made by or on behalf of any Underwriter indemnified party, or by or on behalf of the Company, its directors and officers or any person who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, and shall survive any termination of the applicable Terms Agreement or the issuance and delivery of the Securities covered thereby. The Company and each Underwriter indemnified party agree promptly to notify the others of the commencement of any litigation or proceeding against it and, in the case of the Company, against any of the Company's officers and directors, in connection with the issuance and sale of the Securities, or in connection with the Registration Statement or Prospectus.

10. Notices: Except as otherwise herein provided, all statements, requests, notices and agreements shall be in writing or by telegram and, if to the Underwriters, shall be sufficient in all respects if delivered or sent to the address set forth in the applicable Terms Agreement and, if to the Company, shall be sufficient in all respects if delivered to the Company at the offices of the Company at Universal Corporate Center, 367 South Gulph Road, King of Prussia, PA 19406, Attention:

11. Construction: The Terms Agreement shall be governed by, and construed in accordance with, the laws of the State of New York without regard to principles of conflicts of laws. The section headings in this agreement have been inserted as a matter of convenience of reference and are not a part of this agreement.

12. Parties at Interest: The agreement set forth in the Terms Agreement has been and is made solely for the benefit of the Underwriters and the Company and the controlling persons, directors and officers referred to in Section 9 hereof, and their respective successors, assigns, executors and administrators. No other person, partnership, association or corporation (including a purchaser, as such purchaser, from any of

the Underwriters) shall acquire or have any right under or by virtue of any Terms Agreement.

UNIVERSAL HEALTH SERVICES, INC.

DEBT SECURITIES

TERMS AGREEMENT

, 199

Universal Health Services, Inc.  
Universal Corporate Center  
367 South Gulph Road  
King of Prussia, PA 19406

Attention:

Referring to the Securities of Universal Health Services, Inc. (the "Company") covered by the Registration Statement on Form S-3 (No. 33-) (the "Registration Statement") filed by the Company, on the basis of the representations, warranties and agreements contained in this Agreement, and subject to the terms and conditions herein set forth, the Underwriters named on Schedule A hereto ("Underwriters") agree to purchase, severally and not jointly, and the Company agrees to sell to the Underwriters, \$ aggregate principal amount of % Due (the "Securities") in the respective principal amounts set forth opposite the names of the Underwriters on Schedule A hereto.

The price at which the Securities shall be purchased from the Company by the Underwriters shall be % of the principal amount thereof [plus accrued interest from , 199 ]. The Securities will be offered as set forth in the Prospectus Supplement relating thereto.

The Securities will have the following terms:

Title:

Interest Rate: % per annum

Interest Payment Dates: and commencing , 199

Maturity:

[Other Representations, Warranties, Covenants and/or Closing Conditions]

Other Provisions: as set forth in the Prospectus Supplement relating to the Securities

Closing: \_\_\_\_\_ A.M. on \_\_\_\_\_, 199 , at  
, in New York Clearing House (next day) funds.

Name[s] and Address[es] of Representative[s]:

The provisions contained in the Universal Health Services, Inc. Standard Underwriting Agreement Provisions (dated \_\_\_\_\_, 1995), a copy of which has been filed as Exhibit to the Registration Statement, are incorporated herein by reference.

The Securities will be made available for checking and packaging at the office of \_\_\_\_\_ at least 24 hours prior to the Closing Date.

We represent that we are authorized to act for the several Underwriters named in Schedule A hereto in connection with this financing and any action under this agreement by any of us will be binding upon all the Underwriters.

This Terms Agreement may be executed in one or more counterparts, all of which counterparts shall constitute one and the same instrument.

If the foregoing is in accordance with your understanding of our agreement, kindly sign and return to us the enclosed duplicate hereof, whereupon it will become a binding agreement among the Company and the several Underwriters in accordance with its terms.

Very truly yours,

[NAMES OF REPRESENTATIVES]  
On behalf of themselves and  
as Representatives of the  
Several Underwriters

By: -----

By: -----

Name:  
Title:

The foregoing Terms Agreement  
is hereby confirmed as of the  
date first above written

Universal Health Services, Inc.

By: -----

Name:  
Title:

SCHEDULE A

UNDERWRITER  
-----

PRINCIPAL  
AMOUNT  
-----

. . . . .

\$

TOTAL . . . . .

\$

-----  
=====

=====

UNIVERSAL HEALTH SERVICES, INC.

AND

PNC BANK, N.A. TRUSTEE

\_\_\_\_\_

INDENTURE  
DATED AS OF \_\_\_\_\_, 1995

\_\_\_\_\_

DEBT SECURITIES

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## CROSS-REFERENCE TABLE

TIA SECTION -----	INDENTURE SECTION -----
SECTION 310 (a)(1)	7.10
(a)(2)	7.10
(a)(3)	N.A.
(a)(4)	N.A.
(a)(5)	7.08
(b)	7.08; 7.10; 10.02
(c)	N.A.
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(d)	N.A.
(e)	10.05
(f)	N.A.
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(b)	7.05; 10.02
(c)	7.01(a)
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(a)(2)	N.A.
(b)	6.07
(c)	9.04
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(a)(2)	6.09
(b)	2.05
SECTION 318 (a)	10.01

N.A. means Not Applicable.

NOTE: This Cross-Reference Table shall not, for any purpose, be deemed to be a part of this Indenture.

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NOTE: This Table of Contents shall not, for any purpose,  
be deemed to be a part of this Indenture.

INDENTURE, dated as of \_\_\_\_\_, 1995, between Universal Health Services, Inc., a Delaware corporation (the "Company"), and PNC Bank, N.A., a national banking association incorporated and existing under the laws of the United States of America, as Trustee (the "Trustee").

#### RECITALS OF THE COMPANY

The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of its unsecured notes, debentures or other evidences of indebtedness (collectively, the "Securities"), to be issued from time to time in one or more series (a "Series") as provided in this Indenture and as shall be provided, in respect of any Series, in or pursuant to the Authorizing Resolution hereinafter referred to and/or in the indenture supplemental hereto (if any) relating to such Series.

#### ARTICLE 1

##### DEFINITIONS AND INCORPORATION BY REFERENCE

###### SECTION 1.01 Definitions.

"Affiliate" of any specified person means any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person. For the purposes of this definition, "control" when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agent" means any Registrar, Paying Agent or co-Registrar.

"Attributable Debt" means, with respect to any Sale and Leaseback Transaction as of any particular time, the present value (discounted at the rate of interest implicit in the terms of the lease) of the obligations of the lessee under such lease for net rental payments during the remaining term of the

lease (including any period for which such lease has been extended or may, at the option of the Company, be extended).

"Authorizing Resolution" means a Board Resolution providing for the issuance of a Series of Securities.

"Bankruptcy Law" shall have the meaning provided in Section 6.01.

"Board of Directors" means the Board of Directors of the Company or any duly authorized committee of the Board.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee (except as provided in Section 2.03).

"Business Day" means a day that is not a Legal Holiday.

"Capital Stock" means, with respect to any person, any and all shares, interests, participations or other equivalents (however designated) of corporate stock of such person.

"Capitalized Lease Obligation" means Indebtedness represented by obligations under a lease that is required to be capitalized for financial reporting purposes in accordance with generally accepted accounting principles and the amount of such Indebtedness shall be the capitalized amount of such obligations determined in accordance with such principles.

"Company" means the party named as such in this Indenture until a successor replaces it pursuant to this Indenture and thereafter means the successor.

"Company Request" and "Company Order" mean, respectively, a written request or order signed in the name of the Company by two Officers of the Company or by an Officer and the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary, and delivered to the Trustee in respect of the Series to which the Company Request or Company Order shall relate.

"Consolidated Net Tangible Assets" means the total assets appearing on a consolidated balance sheet of the Company

and its Consolidated Subsidiaries less, without duplication: (i) current liabilities; (ii) all intangible assets and deferred charges; and (iii) deferred income tax assets.

"Consolidated Subsidiary" means a Subsidiary which for financial reporting purposes is accounted for by the Company as a consolidated subsidiary.

"Corporate Trust Office" or other similar term means the principal office of the Trustee at which at any particular time its corporate trust business shall be administered, which office at the date hereof is located at \_\_\_\_\_; the Trustee will notify the Company of any change thereof.

"Custodian" shall have the meaning provided in Section 6.01.

"Default" means any event which is, or after notice or passage of time would be, an Event of Default.

"Event of Default" shall have the meaning provided in Section 6.01.

"Extendible Securities" means Securities of any Series issued hereunder the final maturity of which is extendible for a stated period of time, as shall be provided in, or pursuant to, the Authorizing Resolution and/or supplemental indenture (if any) relating to such Series.

"Funded Debt" means all Indebtedness maturing one year or more from the date of the creation thereof, all Indebtedness directly or indirectly renewable or extendible, at the option of the debtor, by its terms or by the terms of any instrument or agreement relating thereto, to a date one year or more from the date of the creation thereof, and all Indebtedness under a revolving credit or similar agreement obligating the lender or lenders to extend credit over a period of one year or more, even though such Indebtedness may also conform to the definition of Short-Term Borrowing.

"Holder" or "Securityholder" means, with respect to any Security, the person in whose name such Security is registered on the Security Register.

"Indebtedness" means (i) any liability of any person (a) for borrowed money, (b) evidenced by a note, debenture or similar instrument (including a purchase money obligation)



given in connection with the acquisition of any property or assets (other than inventory or similar property acquired in the ordinary course of business), including securities, or (c) for the payment of money relating to a Capitalized Lease Obligation; (ii) any guarantee by any person of any liability of others described in the preceding clause (i); and (iii) any amendment, renewal, extension or refunding of any liability of the types referred to in clauses (i) and (ii) above.

"Indenture" means this Indenture as amended or supplemented from time to time and shall include the forms and terms of particular Series of Securities established as contemplated hereunder.

"Interest Payment Date" means, for any Series of Securities issued and outstanding hereunder, the date or dates in each year on which any interest on such Series is paid or made available for payment.

"Legal Holiday" shall have the meaning provided in Section 10.07.

"Lien" means any mortgage, lien, pledge, charge, or other security interest or encumbrance of any kind.

"Maturity" when used with respect to any Security means the date on which the principal of such Security becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

"Maturity Date" means the date specified in each Security on which the principal thereof is due and payable in full.

"Officer" means the Principal Executive Officer, Principal Financial Officer or Principal Accounting Officer of the Company.

"Officers' Certificate" means a certificate signed by two Officers or by an Officer and the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the Company and delivered to the Trustee. See Sections 10.04 and 10.05.

"Opinion of Counsel" means a written opinion from legal counsel who is acceptable to the Trustee. The counsel

may be an employee of or counsel to the Company. See Sections 10.04 and 10.05.

"Original Issue Date" means the date on which a Security is issued to the original purchaser thereof, as specified in such Security.

"Original Issue Discount Securities" means Securities which provide for an amount less than 100% of the principal amount thereof to be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 6.02.

"Paying Agent" shall have the meaning provided in Section 2.04, except that for the purposes of Article 8 and Section 4.07 the Paying Agent shall not be the Company or any Subsidiary.

"person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or other agency or political subdivision thereof.

"principal" of a debt security means the principal of the security plus, when appropriate, the premium, if any, on the security.

"Principal Property of the Company" shall mean any property, plant, equipment or facility of the Company or any Subsidiary of the Company, except that any property, plant, equipment or facility of the Company or any Subsidiary of the Company which does not equal or exceed 3% of Consolidated Net Tangible Assets shall not constitute a Principal Property of the Company unless the Board of Directors or management of the Company deems it to be material to the Company and its Subsidiaries, taken as a whole; provided, however, that individual items of property, plant, equipment or individual facilities of the Company or any Subsidiary of the Company shall not be combined in determining whether such property, plant, equipment or facility constitutes a Principal Property of the Company, whether or not they are the subject of the same transaction or series of transactions.

"Redeemable Securities" means Securities of any Series which may be redeemed, at the option of the Company, prior to the Stated Maturity thereof, on the terms specified in or pursuant to the Authorizing Resolution and/or supplemental

indenture relating to such Series and in accordance with Article 3A herein.

"Redemption Date" when used with respect to any Security of any Series to be redeemed means the date fixed for such redemption by or pursuant to the provisions of such Security, this Indenture and the Authorizing Resolution and/or supplemental indenture relating to such Security.

"Redemption Price" when used with respect to any Security of any Series to be redeemed means the price at which it is to be redeemed (including accrued interest, if any, to the Redemption Date) pursuant to the provisions of such Security, this Indenture and the Authorizing Resolution and/or supplemental indenture relating to such Security.

"Registrar" shall have the meaning provided in Section 2.04.

"Regular Record Date" means, for the interest payable on any Interest Payment Date in respect of any Series of Securities, except as provided in, or pursuant to, the Authorizing Resolution and/or supplemental indenture relating thereto, the day (whether or not a Business Day) that is fifteen days preceding the applicable Interest Payment Date.

"Required Currency" shall have the meaning provided in Section 10.16.

"Sale and Leaseback Transaction" shall have the meaning provided in Section 4.12.

"SEC" means the Securities and Exchange Commission.

"Securities" means the Securities, as amended or supplemented from time to time pursuant to the terms of this Indenture, of the Company of any Series that are issued under this Indenture.

"Security Register" shall have the meaning provided in Section 2.04.

"Series" means, with respect to Securities issued hereunder, the Securities issued pursuant to any particular Authorizing Resolution and/or supplemental indenture (if any), subject to the right of the Board of Directors to specify in such Authorizing Resolution and/or supplemental indenture (if

any) that such Securities shall constitute more than one Series.

"Short-Term Borrowing" means all Indebtedness in respect of borrowed money maturing on demand or within one year from the date of the creation thereof and not directly or indirectly renewable or extendible, at the option of the debtor, by its terms or by the terms of any instrument or agreement relating thereto, to a date one year or more from the date of the creation thereof; provided, that Indebtedness in respect of borrowed money arising under a revolving credit or similar agreement which obligates the lender or lenders to extend credit over a period of one year or more shall constitute Funded Debt and not Short-Term Borrowing even though the same matures on demand or within one year from the date as of which such Short-Term Borrowing is to be determined.

"Significant Subsidiary" shall have the meaning provided in Section 6.01.

"Sinking Fund" means, with respect to any Sinking Fund Securities, a sinking fund provided for in Article 3B.

"Sinking Fund Securities" means Securities of any Series which are required to be redeemed from time to time prior to the Stated Maturity thereof in whole or in part under a Sinking Fund, on the terms specified in the Authorizing Resolution and/or supplemental indenture (if any) relating to such Series and in accordance with Article 3B herein.

"Special Record Date" shall have the meaning provided in Section 2.14.

"Stated Maturity" when used with respect to any Security or any installment of interest thereon means the date specified in such Security as the fixed date on which the principal of such Security or such installment of interest is due and payable.

"Subsidiary" means (i) a corporation a majority of whose capital stock with voting power, under ordinary circumstances, to elect directors is at the time, directly or indirectly, owned by the Company, by the Company and a Subsidiary (or Subsidiaries) of the Company or by a Subsidiary (or Subsidiaries) of the Company or (ii) any person (other than a corporation) in which the Company, a Subsidiary (or Subsidiaries) of the Company or the Company and a Subsidiary (or Subsidiaries)

of the Company, directly or indirectly, at the date of determination thereof has at least a majority ownership interest.

"TIA" means the Trust Indenture Act of 1939 (15 U.S. Code Section 77aaa-77bbb) as in effect on the date of this Indenture except as provided in Section 9.03.

"Trustee" means the party named as such in this Indenture until a successor replaces it in accordance with the provisions of this Indenture and thereafter means and includes the person or each person who is then a Trustee hereunder, and if at any time there is more than one such person, "Trustee" as used with respect to the Securities of any Series shall mean the Trustee with respect to Securities of that Series.

"Trust Officer" means any officer or assistant officer of the Trustee assigned by the Trustee to administer its corporate trust matters.

"UHT" means Universal Health Realty Income Trust, a real estate investment trust organized under the laws of the State of Maryland.

"U.S. Government Obligations" shall have the meaning provided in Section 8.01.

"Yield to Maturity" means, with respect to any Series of Securities, the yield to maturity thereof, calculated at the time of issuance thereof, or, if applicable, at the most recent redetermination of interest thereon, and calculated in accordance with accepted financial practice.

SECTION 1.02 Incorporation by Reference of Trust Indenture Act.

Whenever this Indenture refers to a provision of the TIA, the provision is incorporated by reference in and made a part of this Indenture. The following TIA terms used in this Indenture have the following meanings:

"Commission" means the SEC;

"indenture securities" means the Securities;

"indenture security holder" means a Securityholder;

"indenture to be qualified" means this Indenture;

"indenture trustee" or "institutional trustee" means the Trustee; and

"obligor" on the indenture securities means the Company or any other obligor on the Securities.

All other TIA terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by SEC rule and not otherwise defined herein have the meanings assigned to them therein.

#### SECTION 1.03 Rules of Construction.

Unless the context otherwise requires:

- (1) a term has the meaning assigned to it;
- (2) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles in effect on the date hereof, and any other reference in this Indenture to "generally accepted accounting principles" refers to generally accepted accounting principles on the date hereof;
- (3) "or" is not exclusive;
- (4) words in the singular include the plural, and words in the plural include the singular;
- (5) provisions apply to successive events and transactions; and
- (6) "herein," "hereof" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other Subdivision.

### ARTICLE 2

#### THE SECURITIES

##### SECTION 2.01 Form of Securities.

The Securities of each Series and the certificate of authentication thereon shall be in substantially the forms set forth in Exhibit A or in such other forms as shall be specified in, or pursuant to, the Authorizing Resolution and/or in the

indenture supplemental hereto (if any) relating to such Series, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture or the said Authorizing Resolution and/or supplemental indenture (if any).

The definitive Securities of each Series shall be printed, lithographed or engraved or produced by any combination of these methods on steel engraved borders or may be produced in any other manner permitted by the rules of any securities exchange on which the Securities may be listed, or, if they shall not be listed on any securities exchange, in any other manner consistent herewith, all as shall be determined by the officers executing such Securities, as evidenced by their execution of such Securities. The Securities may have notations, legends or endorsements required by law, stock exchange rule or usage. The Company shall approve the form of the Securities and any notation, legend or endorsement on them.

The terms and provisions contained in the Securities, annexed hereto as Exhibit A or such other forms as specified in the Authorizing Resolution and/or supplemental indenture (if any) relating thereto, shall constitute, and are hereby expressly made, a part of this Indenture.

SECTION 2.02 Title and Terms.

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more Series. The terms of each Series shall be as provided in an Authorizing Resolution and/or supplemental indenture (if any) or shall be determined in the manner specified therein. The terms to be specified in respect of each Series in the Authorizing Resolution and/or supplemental indenture (if any), or by such person and/or procedures as shall be provided therein, shall include the following:

- (1) the title of the Securities of such Series, which shall distinguish such Series from all other Series;
- (2) the aggregate principal amount of the Securities of such Series which may be authenticated and delivered under this Indenture (except for Securities of such Series authenticated and delivered upon transfer of, or in

exchange for, or in lieu of, other Securities pursuant to Section 2.07, 2.08, 2.11, 2.12, 3A.08 or 9.05);

(3) the date or dates on which the principal (and premium, if any) of the Securities of such Series is payable, and, if the Series shall be Extendible Securities, the terms on which the Company or any other person shall have the option to extend the Maturity of such Securities and the rights, if any, of the Holders to require payment of the Securities;

(4) the rate or rates at which the Securities of such Series shall bear interest, if any (whether floating or fixed), the provisions, if any, for determining such interest rate or rates and adjustments thereto, the date or dates from which such interest shall accrue, the Interest Payment Dates therefor and the Regular Record Dates for the determination of Holders of the Securities of such Series to whom interest is payable;

(5) the place or places where the principal of and interest on Securities of such Series shall be payable (if other than as provided in Section 4.02);

(6) the price or prices at which, the period or periods within which and the terms and conditions upon which the Securities of such Series may be redeemed, in whole or in part, at the option of the Company, pursuant to a Sinking Fund or otherwise;

(7) the obligation, if any, of the Company to redeem, purchase or repay Securities of such Series, in whole or in part, pursuant to a Sinking Fund or otherwise or at the option of a Holder thereof, and the price or prices at which, the period or periods within which and the terms and conditions upon which such redemption, purchase or repayment shall be made;

(8) any Events of Default with respect to the Securities of such Series which may be different from, in lieu of or in addition to those provided for herein, and any covenants or obligations of the Company to the Holders of the Securities of such Series different from, in lieu of or in addition to those set forth herein;

(9) if less than 100% of the principal amount of the Securities of such Series is payable on acceleration under



Section 6.02 or provable in bankruptcy under Section 6.09 at any time, a schedule of or the manner of computing the amounts which are so payable and provable from time to time;

(10) the form of the Securities of such Series (which may be, but which need not be, consistent with the form set forth in Exhibit A attached hereto);

(11) if other than United States dollars, the currency(ies) in which payment of the principal of or interest, if any, on the Securities of that Series shall be payable;

(12) if the principal of or interest, if any, on the Securities of that Series is to be payable, at the election of the Company or a Holder thereof, in a currency or currencies other than that in which the Securities are stated to be payable, the period or periods within which, and the terms and conditions upon which, such election may be made;

(13) if the amount of payments of principal of or interest, if any, on the Securities of the Series may be determined with reference to an index based on a currency or currencies other than that in which the Securities are stated to be payable, the manner in which such amounts shall be determined; and

(14) any other terms of the Securities of such Series; provided, that such other terms shall not be inconsistent with any express terms of this Indenture or in conflict with any express terms of any other Series of Securities which shall be issued and outstanding.

All Securities of any one Series shall be substantially identical in form except as to denomination and except as may be otherwise provided in and pursuant to the Authorizing Resolutions and/or supplemental indenture (if any) relating thereto.

#### SECTION 2.03 Execution and Authentication.

Two Officers or an Officer and the Secretary of the Company shall sign the Securities for the Company by manual or facsimile signature. The Company's seal shall be reproduced on the Securities and may be in facsimile form.

If an Officer or a Secretary whose signature is on a Security no longer holds that office at the time the Trustee authenticates the Security, the Security shall be valid nevertheless.

A Security shall not be valid until the Trustee manually signs the certificate of authentication on the Security. The signature shall be conclusive evidence that the Security has been authenticated under this Indenture.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any Series executed by the Company to the Trustee, together with a Company Order for the authentication and delivery of such Securities. The Company Order may provide that the Securities which are the subject thereof shall be authenticated and delivered by the Trustee upon the telephonic, written or other order of persons designated in the Company Order, and that such persons are authorized to specify the terms and conditions of such Securities, to the extent permitted by the Authorizing Resolution and/or supplemental indenture (if any) relating thereto. The Trustee shall execute and deliver the supplemental indenture (if any) relating to said Securities and the Trustee shall authenticate and deliver said Securities as specified in such Company Order; provided that, prior to authentication and delivery of the first Securities of any Series, the Trustee shall have received:

(1) a copy of the Authorizing Resolution, with a copy of the form of Security approved thereby attached thereto, or a supplemental indenture in respect of the issuance of the Series, executed on behalf of the Company;

(2) an Officers' Certificate to the effect that the Securities of such Series comply or will comply with the requirements of this Indenture and the said Authorizing Resolution and/or supplemental indenture (if any);

(3) an Opinion of Counsel (a) to the effect that (i) the Securities of such Series, the Authorizing Resolution and/or the supplemental indenture (if any) relating thereto comply or will comply with the requirements of this Indenture, and (ii) the Securities of such Series, when authenticated and delivered by the Trustee in accordance with the said Company Order, will constitute valid and binding obligations of the Company enforceable in accordance with their terms, subject to (A) bankruptcy and

other laws affecting creditors' rights generally as in effect from time to time, (B) limitations of generally applicable equitable principles and (C) other exceptions acceptable to the Trustee and its counsel; and (b) relating to such other matters as may reasonably be requested by the Trustee or its counsel; and

(4) if the Securities to be issued are Original Issue Discount Securities, an Officers' Certificate setting forth the Yield to Maturity for the Securities or other information sufficient to compute amounts due on acceleration, or specifying the manner in which such amounts are to be determined, provided that such Yield to Maturity and other facts are not specified in the form of Securities.

Subject to Section 7.01 hereof, the Trustee shall be fully protected in relying upon the document delivered to it as provided above in connection with the issuance of any Series of Securities.

The Trustee shall have the right to decline to authenticate and deliver any Securities under this Section 2.03 if the Trustee, being advised by counsel, determines that such action may not lawfully be taken or if the Trustee in good faith by a committee of its Trust Officers shall determine that such action would expose the Trustee to liability to Holders of previously issued and outstanding Securities.

Each Security shall be dated the date of its authentication unless otherwise specified in the Authorizing Resolution and/or supplemental indenture relating thereto.

The Trustee may appoint an authenticating agent reasonably acceptable to the Company to authenticate Securities. An authenticating agent may authenticate Securities whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating Agent has the same rights as an Agent to deal with the Company or an Affiliate of the Company.

The Securities of each Series shall be issuable only in registered form without coupons and only in denominations of \$1,000 and any integral multiple thereof, or in such other currencies or denominations as may be specified in, or pursuant to, the Authorizing Resolution and/or supplemental indenture (if any) relating to the Series.

## SECTION 2.04 Registrar and Paying Agent.

The Company shall cause to be kept a register (the "Security Register") at an office or agency where Securities may be presented for registration of transfer or for exchange ("Registrar") and an office or agency where Securities may be presented for payment ("Paying Agent"). The Company may have one or more co-Registrars and one or more additional paying agents. The term "Paying Agent" includes any additional paying agent.

The Company shall enter into an appropriate agency agreement with any Agent not a party to this Indenture. The agreement shall implement the provisions of this Indenture that relate to such Agent. The Company shall give prompt written notice to the Trustee of the name and address of any such Agent and the Trustee shall have the right to inspect the Security Register at all reasonable times and to obtain copies thereof. If the Registrar shall not be the Trustee in respect of any Series, the Company shall promptly notify the Registrar as to the amounts and terms of each Security of such Series which shall be authenticated and delivered hereunder, and as to the names in which such Securities shall be registered. If the Company fails to maintain a Registrar or Paying Agent, the Trustee shall act as such and shall be entitled to appropriate compensation therefor pursuant to Section 7.07.

The Company initially appoints the Trustee as Registrar and Paying Agent.

## SECTION 2.05 Paying Agent to Hold Money in Trust.

Each Paying Agent shall hold in trust for the benefit of Securityholders or the Trustee all money held by the Paying Agent for the payment of principal of or interest on the Securities (whether such money has been paid to it by the Company or any other obligor on the Securities), and shall notify the Trustee of any default by the Company (or any other obligor on the Securities) in making any such payment. If the Company or a Subsidiary acts as Paying Agent, it shall segregate the money and hold it as a separate trust fund. The Company at any time may require a Paying Agent to pay all money held by it to the Trustee and account for any funds disbursed and the Trustee may at any time during the continuance of any payment default, upon written request to a Paying Agent, require such Paying Agent to pay all money held by it to the Trustee and to account for any

funds disbursed. Upon doing so the Paying Agent shall have no further liability for the money.

SECTION 2.06 Securityholder Lists.

The Trustee shall preserve in as current a form as is reasonable practicable the most recent list furnished to it of the names and addresses of Securityholders. If the Trustee is not the Registrar, the Company shall furnish to the Trustee ten days before each Interest Payment Date and at such other times as the Trustee may request in writing a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Holders of Securities of any Series and the Company shall otherwise comply with Section 312(a) of the TIA.

The Trustee shall be entitled to rely upon a certificate of the Registrar, the Company or such other Paying Agent, as the case may be, as to the names and addresses of the Holders of Securities of any Series and the principal amounts and serial numbers of such Securities.

SECTION 2.07 Transfer and Exchange.

When Securities are presented to the Registrar or a co-Registrar with a request to register the transfer or to exchange them for an equal principal amount of Securities of the same Series and Stated Maturity of other authorized denominations, the Registrar shall register the transfer or make the exchange as requested if its requirements for such transactions are met. To permit registrations of transfer and exchanges, the Company shall execute and the Trustee shall authenticate Securities at the Registrar's request. No service charge shall be made to any Holder for any registration of transfer or exchange, but the Company or the Trustee may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith (other than any such transfer taxes or similar governmental charge payable upon exchanges pursuant to Section 2.08, 2.11, 2.12, 3A.08 or 9.05 in which case such transfer taxes or similar governmental charges shall be paid by the Company).

The Company shall not be required (i) to issue, register the transfer of or exchange any Security of any Series during a period beginning at the opening of the day which is 15 Business Days before the day of the mailing of a notice of redemption of Securities of such Series selected for redemption

under Section 3A.04 or 3B.01 and ending at the close of business on the day of such mailing, or (ii) to register the transfer of or exchange any Security so selected for redemption in whole or in part, except, in the case of any Security to be redeemed in part, the portion thereof not to be redeemed.

SECTION 2.08 Replacement Securities.

If a mutilated Security is surrendered to the Trustee or if the Holder of a Security claims that the Security has been lost, destroyed or wrongfully taken, the Company shall issue and the Trustee shall authenticate a replacement Security of like tenor, Series and principal amount, bearing a number not assigned to any Security of the same Series then outstanding, if the Trustee's requirements are met. If required by the Trustee or the Company, an indemnity bond must be sufficient in the judgment of the Trustee to protect the Company, the Trustee or any Agent from any loss which any of them may suffer if a Security is replaced. The Company may charge such Holder for its expenses in replacing a Security.

Every replacement Security is an additional obligation of the Company.

SECTION 2.09 Outstanding Securities.

Securities, or Securities of any particular Series, outstanding at any time are all such Securities that have been authenticated and delivered by the Trustee except for those cancelled by it, those delivered to it for cancellation and those described in this Section as not outstanding. A Security does not cease to be outstanding because the Company or one of its Affiliates holds the Security.

If a Security is replaced pursuant to Section 2.08, it ceases to be outstanding unless the Trustee receives proof satisfactory to it that the replaced Security is held by a bona fide purchaser.

If the Trustee or Paying Agent (other than the Company or a Subsidiary) holds on the Maturity Date or Redemption Date money sufficient to pay Securities payable on such date, then on and after that date such Securities cease to be outstanding and interest on them ceased to accrue; provided that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefore satisfactory to the Trustee has been made.

## SECTION 2.10. Treasury Securities.

In determining whether the Holders of the required principal amount of Securities of any Series have concurred in any direction, waiver or consent (a) the principal amount of an Original Issue Discount Security of such Series that shall be deemed to be outstanding for such purposes shall be the amount that would be due and payable as of the date of determination upon a declaration of acceleration thereof pursuant to Section 6.02 and (b) Securities of such Series owned by the Company or an Affiliate of the Company shall be disregarded, except that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, only Securities of such Series which the Trustee actually knows are so owned shall be so disregarded. Upon the request of the Trustee, the Company shall furnish to the Trustee an Officer's Certificate identifying all Securities of such Series, if any, known by the Company to be owned by it or any of its Affiliates.

## SECTION 2.11. Global Securities.

If the Authorizing Resolution so provides, the Company may issue some or all of the Securities of a Series in temporary or permanent global form. A global Security may be issued only in fully registered form. A global Security shall represent that amount of Securities of a Series as specified in the global Security or as endorsed thereon from time to time. At the Company's request, the Registrar shall endorse a global Security to reflect the amount of any increase or decrease in the Securities represented thereby.

The Company may issue a global Security only to a depository designated by the Company. A depository may transfer a global Security only as a whole to its nominee or to a successor depository.

The Authorizing Resolution may establish, among other things, the manner of paying principal and interest on a global Security and whether and upon what terms a beneficial owner of an interest in a global Security may exchange such interest for definitive Securities.

The Company, the Trustee and any Agent shall not be responsible for any acts or omissions of a depository, for any depository records of beneficial ownership interests or for any transactions between the depository and beneficial owners.

## SECTION 2.12. Temporary Securities.

Until definitive Securities of any Series are ready for delivery, the Company may prepare and execute and, upon compliance with the requirements of Section 2.03, the Trustee shall authenticate temporary Securities of such Series. Temporary Securities of any Series shall be substantially in the form of definitive Securities of such Series but may have variations that the Company considers appropriate for temporary Securities. Without unreasonable delay, the Company shall prepare and the Trustee shall authenticate definitive Securities for such Series in exchange for temporary Securities of such Series in an exchange pursuant to Section 2.07.

## SECTION 2.13. Cancellation.

The Company at any time may deliver Securities to the Trustee for cancellation. The Registrar and the Paying Agent shall forward to the Trustee any Securities surrendered to them for transfer, exchange or payment. The Trustee and no one else shall cancel all Securities surrendered for transfer, exchange, payment or cancellation or for credit against any Sinking Fund Payment in respect of such Series pursuant to Section 3B.02. The Company may not issue new Securities to replace Securities it has paid or delivered to the Trustee for cancellation.

## SECTION 2.14. Defaulted Interest.

If the Company defaults in a payment of interest on the Securities of any Series, it shall pay the defaulted interest, plus any interest payable on the defaulted interest, to the persons who are Holders of such Securities on a subsequent special record date ("Special Record Date") and such term, as used in this Section 2.14 with respect to the payment of any defaulted interest, shall mean the fifteenth day next preceding the date fixed by the Company for the payment of defaulted interest, whether or not such day is a Business Day. At least 15 days before the Special Record Date, the Company shall mail to each holder of such Securities a notice that states the Special Record Date, the payment date and the amount of defaulted interest to be paid.

## SECTION 2.15. Persons Deemed Owners.

The Company, the Trustee and any Agent may treat the person in whose name any Security is registered as the owner of such Security for the purpose of receiving payment of principal



of and (subject to Section 2.14) interest on such Security and for all other purposes whatsoever, whether or not such Security shall have matured, and neither the Company, the Trustee nor any Agent shall be affected by any notice to the contrary.

#### ARTICLE 3A

##### REDEMPTION

###### SECTION 3A.01. Right of Redemption.

Redeemable Securities may be redeemed otherwise than through the operation of the Sinking Fund provided for in Article 3B at the election of the Company at the times, on the conditions and at the Redemption Prices specified therein, in (or pursuant to) the Authorizing Resolution relating thereto or in the supplemental indenture (if any) executed in connection with the issuance of such Securities to the extent provided therein.

###### SECTION 3A.02. Applicability of Article.

Redemption of Securities at the election of the Company or otherwise, as permitted or required by any provision referred to in Section 3A.01, shall be made in accordance with the provisions of this Article.

###### SECTION 3A.03. Election to Redeem; Notice to Trustee.

The election of the Company to redeem any Securities of any Series shall be evidenced by a Board Resolution or set forth in an Officers' Certificate which states that such election has been duly authorized by all requisite corporate action on the part of the Company. In case of any redemption at the election of the Company of less than all of the Securities of such Series the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date and of the principal amount of Securities of the Series or the several Series, as the case may be, to be redeemed. In the case of any redemption of Securities prior to the expiration of any restriction on such redemption provided in the Securities or elsewhere in this Indenture, the Company shall furnish the Trustee with an Officers' Certificate evidencing compliance with such restriction.

SECTION 3A.04. Selection by Trustee of Securities to Be Redeemed.

If less than all the Securities of any Series are to be redeemed, the particular Securities of such Series to be redeemed shall be selected not more than 90 days prior to the Redemption Date by the Trustee, from the outstanding Securities of such Series not previously called for redemption, in compliance with the requirements of the principal national securities exchange, if any, on which such Securities are listed or, if the Securities are not listed on a national securities exchange, on a pro rata basis or by lot. The Trustee may select for redemption portions (equal to the minimum authorized denomination of the Series or any integral multiple thereof) of the principal amount of such Securities of a denomination larger than such minimum denomination. If the Company shall so specify, Securities held by the Company or any of its Subsidiaries or Affiliates shall not be included in the Securities selected for redemption.

The Trustee shall promptly notify the Company in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal amount of such Security which has been or is to be redeemed.

SECTION 3A.05. Notice of Redemption.

Notice of redemption shall be given by first class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Securities to be redeemed, at the Holder's address appearing in the Security Register.

All notices of redemption shall state:

- (1) the Redemption Date;
- (2) the Redemption Price;

(3) if less than all outstanding Securities of the Series are to be redeemed, the identification (and, in the case of partial redemption, the principal amount) of the particular Securities to be redeemed;

(4) that on the Redemption Date the Redemption Price will become due and payable upon each such Security, and that interest thereon shall cease to accrue on and after said date;

(5) that the redemption is for a Sinking Fund, if such is the case; and

(6) the place or places where such Securities are to be surrendered for payment of the Redemption Price.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name of and at the expense of the Company.

#### SECTION 3A.06. Deposit of Redemption Price.

On or prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 2.05) an amount of money sufficient to pay the Redemption Price of, including (except if the Redemption Date shall be an Interest Payment Date) any accrued interest on, all the Securities or portions thereof which are to be redeemed on that date.

#### SECTION 3A.07. Securities Payable on Redemption Date.

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price thereof and from and after such date (unless the Company shall default in the payment of the Redemption Price) such Securities shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with said notice such Security shall be paid by the Company at the Redemption Price, provided, however, that installments of interest whose Stated Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Securities registered as such on the relevant Regular or Special Record Date according to their terms and the provision of such Security and Section 2.14.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal shall, until paid or duly provided for, bear interest from the Redemption Date at the rate borne by the Security or, in the case of Original Issue Discount Securities, at a rate equal to the Yield to Maturity thereof.

SECTION 3A.08. Securities Redeemed in Part.

Any Security which is to be redeemed only in part shall be surrendered at the office or agency of the Company maintained for that purpose pursuant to Section 4.02 (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security, without service charge, a new Security or Securities of the same Series, of any authorized denomination as requested by such Holder in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

ARTICLE 3B

SINKING FUND

SECTION 3B.01. Sinking Fund Payments.

As and for a Sinking Fund for the retirement of Sinking Fund Securities, the Company will, until all such Securities are paid or payment thereof is duly provided for, deposit in accordance with Section 3A.06, at such times and subject to such terms and conditions as shall be specified in the provisions of such Securities and the Authorizing Resolution and/or supplemental indenture (if any) relating thereto, such amounts in cash as shall be required or permitted under such provisions in order to redeem Securities on the specified Redemption Dates at a Redemption Price equal to their principal amounts, less in each such case the amount of any credit against such payment received by the Company under Section 3B.02. Each such Sinking Fund payment shall be applied to the redemption of Securities on the specified Redemption Date as herein provided.

SECTION 3B.02 Satisfaction of Sinking Fund Payments  
with Securities.

The Company (1) may deliver Securities of the same Series (other than any Securities of such Series previously called for redemption pursuant to the Sinking Fund or theretofore applied as a credit against a Sinking Fund payment) and (2) may apply as a credit Securities of the same Series redeemed at the election of the Company pursuant to Section 3A.01 or through the operation of the Sinking Fund in any period in excess of the minimum amount required for such period under Section 3B.01 and not theretofore applied as a credit against a Sinking Fund payment, in each case in satisfaction of all or any part of any Sinking Fund payment required to be made pursuant to Section 3B.01. Each such Security so delivered or applied shall be credited for such purpose by the Trustee at a Redemption Price equal to its principal amount or, in the case of an Original Issue Discount Security, its then accreted value, and the required amount of such Sinking Fund payment in respect of such Series shall be reduced accordingly.

SECTION 3B.03. Redemption of Securities for Sinking  
Fund.

If in any year the Company shall elect to redeem in excess of the minimum principal amount of Securities of any Series required to be redeemed pursuant to Section 3B.01 or to satisfy all or any part of any Sinking Fund payment by delivering or crediting Securities of the same Series pursuant to Section 3B.02, then at least 45 days prior to the date on which the Sinking Fund payment in question shall be due (or such shorter period as shall be approved by the Trustee), the Company shall deliver to the Trustee an Officers' Certificate specifying the amount of the Sinking Fund payment and the portions thereof which are to be satisfied by payment of cash, by delivery of Securities of such Series or by crediting Securities of such Series, and, at least 45 days prior to the Sinking Fund payment date (or such shorter period as shall be approved by the Trustee), will also deliver to the Trustee the Securities of such Series to be so delivered. Such Officers' Certificate shall also state that the Securities forming the basis of any such credit do not include any Securities which have been redeemed through the operation of the Sinking Fund in the minimum amount required under Section 3B.01 or previously credited against any Sinking Fund payment. The Trustee shall, upon receipt of such Officers' Certificate (or, if it shall not have received such an Officers' Certificate at least 45 days prior

to the Sinking Fund payment date, then following such 45th day), select the Securities of such Series to be redeemed upon the next Sinking Fund payment date, in the manner specified in Section 3A.04, and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 3A.05. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 3A.06, 3A.07 and 3A.08.

#### ARTICLE 4

##### COVENANTS

###### SECTION 4.01. Payment of Securities.

The Company shall pay the principal of and interest on the Securities of each Series on the dates and in the manner provided in the Securities and in this Indenture. An installment of principal or interest shall be considered paid on the date due if the Trustee or Paying Agent (other than the Company or a Subsidiary) holds on that date money designated for and sufficient to pay the installment.

The Company shall pay interest on overdue principal at the respective rates borne by such Securities or, in the case of Original Issue Discount Securities, at rates equal to the respective Yields to Maturity thereof; it shall pay interest on overdue installments of interest at the respective rates borne by such Securities.

###### SECTION 4.02. Maintenance of Office or Agency.

Except as otherwise provided in the Authorizing Resolutions and/or supplemental indenture (if any) relating to any Series, the Company will maintain in the City of New York, an office or agency where Securities may be surrendered for registration of transfer or exchange or for presentation for payment and where notices and demands to or upon the Company in respect to the Securities and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations,

surrenders, notices and demands may be made or served at the Corporate Trust Office.

The Company may also from time to time designate one or more other offices or agencies where the Securities of any Series or a particular Series may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in the City of New York, for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

The Company hereby initially designates the Trustee in the City of New York, as an agency of the Company in accordance with Section 2.04.

#### SECTION 4.03. Corporate Existence.

Subject to Article 5 and Section 4.07, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and the corporate, partnership or other existence of each Subsidiary of the Company in accordance with the respective organizational documents of each such Subsidiary and the rights (charter and statutory) and material franchises of the Company and its Subsidiaries; provided, however, that the Company shall not be required to preserve any such right or franchise, or the corporate existence of any Subsidiary, if the Board of Directors or management of the Company or such Subsidiary shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and its Subsidiaries, taken as a whole.

#### SECTION 4.04 Payment of Taxes and Other Claims.

The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all material taxes, assessments and governmental charges levied or imposed upon the Company or any Subsidiary or upon the income, profits or property of the Company or any Subsidiary and (2) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a material Lien upon the property of the Company or any Subsidiary; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or

claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which the appropriate provision has been made.

SECTION 4.05. Notice of Defaults.

In the event that any Indebtedness of the Company or any of its Subsidiaries is declared due and payable before its maturity because of the occurrence of any default (or any event which, with notice or the lapse of time, or both, shall constitute such default) under such Indebtedness, the Company will promptly give written notice to the Trustee of such declaration.

SECTION 4.06. Maintenance of Properties.

Subject to Section 4.07, the Company will cause all material properties owned by or leased to it or any Subsidiary of the Company and used or useful in the conduct of its business or the business of any such Subsidiary to be maintained and kept in normal condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Company may seem necessary, so that the business carried on in connection therewith may be properly and advantageously conducted at all times; provided, however, that nothing in this Section shall prevent the Company or any such Subsidiary from discontinuing the use, operation or maintenance of any of such properties, or disposing of any of them, if such discontinuance or disposal is, in the judgment of the Board of Directors, board of trustees or managing partners of the Subsidiary concerned, or of an officer (or other agent employed by the Company or of any of its Subsidiaries) of the Company or such Subsidiary having managerial responsibility for any such property, desirable in the conduct of the business of the Company or any Subsidiary.

SECTION 4.07 Liquidation.

The Board of Directors or the stockholders of the Company may not adopt a plan of liquidation which provides for, contemplates or the effectuation of which is preceded by (i) the sale, lease, conveyance or other disposition of all or substantially all of the assets of the Company otherwise than substantially as an entirety (Article 5 of this Indenture being the Article which governs any such sale, lease, conveyance or other disposition substantially as an entirety) and (ii) the



distribution of all or substantially all of the proceeds of such sale, lease, conveyance or other disposition and of the remaining assets of the Company to the holders of Capital Stock of the Company, unless the Company shall in connection with the adoption of such plan make provisions for, or agree that prior to making any liquidating distributions it will make provisions for, the satisfaction of the Company's obligations hereunder and under the Securities of each Series as to the payment of principal and interest. The Company shall be deemed to make provision for such payments only if (a) the Company delivers in trust to the Trustee or Paying Agent (other than the Company or a Subsidiary) (i) in the case of any Securities of any Series denominated in United States dollars, an amount of cash sufficient to pay principal of and interest on such outstanding securities at their respective Stated Maturities or U.S. Government Obligations in an aggregate principal amount equal to the unpaid principal amount of such Securities and having maturities and interest payment dates that shall coincide, as nearly as may be practicable, with the dates that the principal of and interest on such Securities are due and (ii) in the case of any Securities of any Series denominated in any currency other than United States dollars, an amount of the Required Currency sufficient to pay principal of and interest on such outstanding Securities at their respective Stated Maturities or (b) there is an express assumption of the due and punctual payment of the Company's obligations hereunder and under the Securities of each Series and the performance and observance of all covenants and conditions to be performed by the Company hereunder, by the execution and delivery of a supplemental indenture in form satisfactory to the Trustee by a person which acquires or will acquire (otherwise than pursuant to a lease) a portion of the assets of the Company, and which is organized and existing under the laws of the United States, any State thereof or the District of Columbia; provided, however, that the Company shall not make any liquidating distribution until after the Company shall have certified to the Trustee with an Officers' Certificate and an Opinion of Counsel at least five days prior to the making of any liquidating distribution that it has complied with the provisions of this Section 4.07.

SECTION 4.08. Compliance Certificate.

The Company shall deliver to the Trustee within 90 days after the end of each fiscal quarter of the Company an Officers' Certificate stating whether or not the signers know of any Default or Event of Default by the Company that occurred during such fiscal quarter and whether all of the conditions

and covenants of the Company have been complied with regardless of any period of grace or requirement of notice provided under the Indenture. If they do know of such a Default or Event of Default, the certificate shall describe the Default or Event of Default, as the case may be, and its status. The first Officers' Certificate to be delivered pursuant to this Section 4.08 shall be for the fiscal quarter ending immediately after the Original Issue Date.

SECTION 4.09. SEC Reports.

(a) The Company shall file with the SEC copies of the annual reports and such other information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may by rules and regulations prescribe) required to be filed with the SEC pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, whether or not the Company is then subject to such filing requirements and will file with the Trustee, within 15 days after it files them with the SEC, copies of all such annual reports, information, documents and other reports. The Company also shall comply with the other provisions of TIA Section 314(a).

(b) So long as the Securities of any Series remain outstanding, the Company shall cause its annual report to stockholders and any quarterly or other financial reports furnished by it to stockholders to be mailed to the Holders of Securities outstanding at their addresses appearing in the Security Register.

SECTION 4.10. Waiver of Stay, Extension or Usury Laws.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any usury law or other law, which would prohibit or forgive the Company from paying all or any portion of the principal of and/or interest on the Securities of any Series as contemplated herein, wherever enacted, now or at any time hereafter in force, or which may affect the covenants or the performance of this Indenture; and (to the extent that it may lawfully do so) the Company hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will

suffer and permit the execution of every such power as though no such law had been enacted.

SECTION 4.11. Restrictions on Liens.

The Company will not, and will not permit any Subsidiary of the Company to, incur, create, assume or otherwise become liable in respect of any Indebtedness secured by a Lien, or guarantee any Indebtedness with a guarantee which is secured by a Lien, on any Principal Property of the Company or any Capital Stock or Indebtedness of any Consolidated Subsidiary, without effectively providing that the Securities of each Series (together with, if the Company shall so determine, any other Indebtedness of the Company then existing or thereafter created ranking equally with the Securities of each Series) shall be secured equally and ratably with (or, at the option of the Company, prior to) such secured Indebtedness, so long as such secured Indebtedness shall be so secured; provided, however, that this Section 4.11 shall not apply to Indebtedness secured by:

- (1) Liens existing on the date of this Indenture;
- (2) Liens in favor of governmental bodies to secure progress, advance or other payments;
- (3) Liens existing on property, Capital Stock or Indebtedness at the time of acquisition thereof (including acquisition through lease, merger or consolidation) or Liens to secure the payment of all or any part of the purchase price thereof or the purchase price of construction, installation, renovation, improvement or development thereon or thereof or to secure any Indebtedness incurred prior to, at the time of, or within 360 days after the later of the acquisition, completion of such construction, installation, renovation, improvement or development or the commencement of full operation of such property or within 360 days after the acquisition of such Capital Stock or Indebtedness for the purpose of financing all or any part of the purchase price thereof;
- (4) Liens securing Indebtedness in an aggregate amount which, at the time of incurrence and together with all outstanding Attributable Debt in respect of Sale and Leaseback Transactions permitted by clause (y) of the second paragraph of Section 4.12, does not exceed five

percent of the Consolidated Net Tangible Assets of the Company;  
and

(5) any extension, renewal or replacement (or successive extensions, renewals or replacements), as a whole or in part, of any Lien referred to in the foregoing clauses (1) to (4) inclusive; provided, that such extension, renewal or replacement of such Lien is limited to all or any part of the same property, Capital Stock or Indebtedness that secured the Lien extended, renewed or replaced (plus improvements on such property), and that such secured Indebtedness at such time is not increased.

If at any time the Company or any Subsidiary of the Company shall incur, create, assume or otherwise become liable in respect of any Indebtedness secured by a Lien, or guarantee any Indebtedness with a guarantee which is secured by a Lien, on any Principal Property of the Company or any Capital Stock or Indebtedness of any Consolidated Subsidiary other than as permitted under clauses (1) through (5) of this Section 4.11, the Company shall promptly deliver to the Trustee (i) an Officers' Certificate stating that the covenant of the Company to secure the Securities equally and ratably with such secured Indebtedness pursuant to this Section 4.11 has been complied with, (ii) an Opinion of Counsel that such covenant has been complied with and that any instruments executed by the Company or any Subsidiary of the Company in performance of such covenant comply with the requirements of such covenant and (iii) copies of all such instruments.

#### SECTION 4.12. Restrictions on Sales and Leasebacks.

The Company will not, and will not permit any Subsidiary of the Company to, sell or transfer any Principal Property of the Company, with the Company or any such Subsidiary taking back a lease of such Principal Property of the Company (a "Sale and Leaseback Transaction"), unless (i) such Principal Property of the Company is sold within 360 days from the date of acquisition of such Principal Property of the Company or the date of the completion of construction or commencement of full operations on such Principal Property of the Company, whichever is later, or (ii) the Company or any such Subsidiary, within 120 days after such sale, applies or causes to be applied to the retirement of Funded Debt of the Company or any Subsidiary (other than Funded Debt of the Company which by its terms or the terms of the instrument pursuant to which it was issued is subordinate in right of payment to the Securities of each

Series) an amount not less than the greater of (A) the net proceeds of the sale of such Principal Property of the Company or (B) the fair value (as determined in any manner approved by the Board of Directors) of such Principal Property of the Company.

The provisions of this Section 4.12 shall not prevent a Sale and Leaseback Transaction (x) if the lease entered into by the Company or any Subsidiary of the Company in connection therewith is for a period, including renewals, of not more than 36 months, (y) if the Company or any Subsidiary of the Company would, at the time of entering into such Sale and Leaseback Transaction, be entitled, without equally and ratably securing the Securities, to create or assume a Lien on such Principal Property securing Indebtedness in an amount at least equal to the Attributable Debt in respect of such Sale and Leaseback Transaction pursuant to clause (4) of Section 4.11 or (z) involving a Sale and Leaseback of a Principal Property of the Company with UHT, the value of which does not exceed five percent of the Consolidated Net Tangible Assets of the Company.

#### ARTICLE 5

##### SUCCESSOR CORPORATION

###### SECTION 5.01. When Company May Merge, etc.

The Company shall not consolidate with or merge with or into any other corporation or transfer all or substantially all of its properties and assets as an entirety to any person in one or a series of related transactions, unless:

(1) either the Company shall be the continuing person, or the person (if other than the Company) formed by such consolidation or into which the Company is merged or to which all or substantially all of the properties and assets of the Company as an entirety are transferred shall be a corporation organized and existing under the laws of the United States or any State thereof or the District of Columbia and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of the Company under the Securities of each Series and this Indenture;

(2) immediately before and immediately after giving effect to such transaction, no Event of Default and no Default shall have occurred and be continuing; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transactions have been complied with.

SECTION 5.02. Successor Corporation Substituted.

Upon any consolidation or merger, or any transfer of all or substantially all of the properties and assets of the Company in accordance with Section 5.01, the successor corporation formed by such consolidation or into which the Company is merged or to which such transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor corporation had been named as the Company herein.

ARTICLE 6

DEFAULT AND REMEDIES

SECTION 6.01. Events of Default.

An "Event of Default" occurs if, with respect to any Series of Securities, unless it is either inapplicable to a particular Series or it is specifically deleted, or modified in the Authorizing Resolution and/or supplemental indenture (if any) in respect of the Series, and upon any other events which may be specified as Events of Default in the Authorizing Resolution and/or supplemental indenture (if any) in respect of such Series:

(1) the Company defaults in the payment of interest on any Securities of such Series when the same becomes due and payable and the default continues for a period of 30 days;

(2) the Company defaults in the payment of the principal of any Securities of such Series when the same becomes due and payable at its Maturity or otherwise or defaults in the deposit of any Sinking Fund installment in respect of such Series, when and as payable by the terms of Section 3B.01 hereof;

(3) the Company fails to comply with any of its other agreements contained in the Securities of such Series or this Indenture (other than an agreement relating exclusively to another Series of Securities) and the default continues for the period and after the notice specified below;

(4) there shall be (i) a default under any bond, debenture, note or other evidence of indebtedness for money borrowed or under any mortgage, indenture or other instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness by the Company or any Significant Subsidiary or by any Subsidiaries of the Company which in the aggregate would constitute a Significant Subsidiary or under any guarantee of payment of Indebtedness by the Company or any Significant Subsidiary or by any Subsidiaries of the Company which in the aggregate would constitute a Significant Subsidiary, whether such Indebtedness or guarantee now exists or shall hereafter be created, and the effect of such default is to cause such Indebtedness (or Indebtedness so guaranteed) to become due prior to its Stated Maturity or (ii) a failure to pay at the Stated Maturity of any such Indebtedness (or Indebtedness so guaranteed) any amounts then due and owing thereunder; provided, however, that no Default under this clause (4) shall exist if all such defaults and failures to pay relate to Indebtedness (including Indebtedness so guaranteed) with an aggregate principal amount of not more than \$5,000,000 at the time outstanding;

(5) the Company or any Significant Subsidiary or any Subsidiaries of the Company which in the aggregate would constitute a Significant Subsidiary pursuant to or within the meaning of any Bankruptcy Law:

(A) commences a voluntary case or proceeding,

(B) consents to the entry of an order for relief against it in an involuntary case or proceeding,

(C) consents to the appointment of a Custodian of it or for all or substantially all of its property, or

(D) makes a general assignment for the benefit of its creditors;

(6) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(A) is for relief against the Company or any Significant Subsidiary or any Subsidiaries of the Company which in the aggregate would constitute a Significant Subsidiary in an involuntary case or proceeding,

(B) appoints a Custodian of the Company or any Significant Subsidiary or any Subsidiaries of the Company which in the aggregate would constitute a Significant Subsidiary or for all or substantially all of its or their properties, or

(C) orders the liquidation of the Company or any Significant Subsidiary or any Subsidiaries of the Company which in the aggregate would constitute a Significant Subsidiary,

and in each case the order or decree remains unstayed and in effect for 60 days; or

(7) final judgments for the payment of money which in the aggregate exceed \$5,000,000 at the time outstanding shall be rendered against the Company or any Significant Subsidiary or any Subsidiaries of the Company which in the aggregate would constitute a Significant Subsidiary by a court of competent jurisdiction and shall remain undischarged for a period (during which execution shall not be effectively stayed) of 60 days after such judgment becomes final and nonappealable.

The term "Bankruptcy Law" means Title 11, U.S. Code or any similar Federal or state law for the relief of debtors. The term "Custodian" means any receiver, trustee, assignee, liquidator, sequestrator or similar official under any Bankruptcy Law.

For purposes of this Section 6.01, the term "Significant Subsidiary" means a Subsidiary of the Company, including its Subsidiaries, which meets any of the following conditions:

(a) the Company's and its other Subsidiaries' investments in and advances to the Subsidiary exceed 10 percent of the total assets of the Company and its



Subsidiaries consolidated as of the end of any two of the three most recently completed fiscal years; or

(b) the Company's and its other Subsidiaries' proportionate share of the total assets of the Subsidiary exceeds 10 percent of the total assets of the Company and its Subsidiaries consolidated as of the end of any two of the three most recently completed fiscal years; or

(c) the Company's and its other Subsidiaries' equity in the income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principles of the Subsidiary exceeds 10 percent of such income of the Company and its Subsidiaries consolidated as of the end of any two of the three most recently completed fiscal years.

A Default under clause (3) above is not an Event of Default until the Trustee notifies the Company, or the Holders of at least 25% in principal amount of the outstanding Securities of such Series notify the Company and the Trustee, of the Default and the Company does not cure the Default within 30 days after receipt of the notice. The notice must specify the Default, demand that it be remedied and state that the notice is a "Notice of Default." When a Default is cured, it ceases. Such notice shall be given by the Trustee if so requested by the Holders of at least 25% in principal amount of the Securities of such Series then outstanding.

Subject to the provisions of Sections 7.01 and 7.02, the Trustee shall not be charged with knowledge of any Event of Default unless written notice thereof shall have been given to a Trust Officer at the corporate trust office of the Trustee by the Company, the Paying Agent, any Holder or an agent of any Holder.

#### SECTION 6.02. Acceleration.

If an Event of Default (other than an Event of Default with respect to the Company specified in Section 6.01(5) or (6)) with respect to Securities of any Series occurs and is continuing, the Trustee may, by notice to the Company, or the Holders of at least 25% in principal amount of such Securities of such Series then outstanding may, by notice to the Company and the Trustee, and the Trustee shall, upon the request of such Holders, declare all unpaid principal (or, if such Securities are Original Issue Discount Securities, such portion of the principal amount as may then be payable on acceleration as provided in the terms thereof) and accrued interest to the date of acceleration on all such Securities of such Series then outstanding (if not then due and payable) to be due and payable and, upon any such declaration, the same shall become and be immediately due and payable. If an Event of Default with respect to the Company specified in Section 6.01(5) or (6) occurs, all unpaid principal (or, if any Securities are Original Issue Discount Securities, such

portion of the principal amount as may then be payable on acceleration as provided in the terms thereof) and accrued interest on all Securities of every Series then outstanding shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Securityholder. Upon payment of such principal amount and interest, all of the Company's obligations under such Securities of such Series and this Indenture with respect to such Securities of such Series, other than obligations under Section 7.07, shall terminate. The Holders of a majority in principal amount of the Securities of such Series then outstanding by notice to the Trustee may rescind an acceleration and its consequences if (i) all existing Events of Default, other than the non-payment of the principal of the Securities of such Series which has become due solely by such declaration of acceleration, have been cured or waived, (ii) interest on overdue installments of interest and overdue principal, which has become due otherwise than by such declaration of acceleration, has been paid, (iii) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction and (iv) all payments due to the Trustee and any predecessor Trustee under Section 7.07 have been made.

#### SECTION 6.03. Other Remedies

If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy by proceeding at law or in equity to collect the payment of principal of or interest on the Securities of the Series as to which the Event of Default shall have occurred or to enforce the performance of any provision of such Securities or the Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Securities of the Series as to which the Event of Default shall have occurred or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Securityholder in exercising any right or remedy occurring upon an Event of Default shall not impair the right or remedy

or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative to the extent permitted by law.

SECTION 6.04. Waiver of Past Defaults.

Subject to Sections 6.07 and 9.02, the Holders of a majority in principal amount of the outstanding Securities of a Series by written notice to the Trustee may waive an existing Default or Event of Default and its consequences, except a Default in the payment of principal of or interest on any such Security as specified in clauses (1) and (2) of Section 6.01. When a Default or Event of Default is waived, it is cured and ceases.

SECTION 6.05. Control by Majority.

The Holders of a majority in principal amount of the outstanding Securities of a Series (or, if more than one Series is affected, of all such Series voting as a single class) may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with any law or this Indenture that the Trustee determines may be unduly prejudicial to the rights of another Securityholder, or that may involve the Trustee in personal liability; provided that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

SECTION 6.06. Limitation on Suits.

A Securityholder may not pursue any remedy with respect to this Indenture or the Securities of the applicable Series unless:

- (1) the Holder gives to the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in principal amount of the outstanding Securities of the Series in respect of which the Event of Default has occurred make a written request to the Trustee to pursue a remedy;

(3) such Holder or Holders offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense;

(4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and

(5) during such 60-day period the Holders of a majority in principal amount of the outstanding Securities of such Series do not give the Trustee a direction which, in the opinion of the Trustee, is inconsistent with the request.

A Holder of Securities of any Series may not use this Indenture to prejudice the rights of any other Holders of Securities of that Series or to obtain a preference or priority over any other Holders of Securities in that Series.

#### SECTION 6.07. Rights of Holders to Receive Payment.

Notwithstanding any other provision of this Indenture, the right of any Holder to receive payment of principal of and interest on the Security, on or after the respective due dates expressed in such Security, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

#### SECTION 6.08. Collection Suit by Trustee.

If an Event of Default in payment of interest or principal specified in Section 6.01(1) or (2) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company or any other obligor on the Securities of the Series in respect of which the Event of Default has occurred for the whole amount of principal and accrued interest remaining unpaid, together with interest overdue on principal or, in the case of Original Issue Discount Securities, the then accreted value, and interest on overdue installments of interest, in each case at the rate per annum borne by such Securities or, in the case of Original Issue Discount Securities, at a rate equal to the Yield to Maturity thereof, and such further amount as shall be sufficient to cover the costs and expenses of collection, including

the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

SECTION 6.09. Trustee May File Proofs of Claim.

The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and the Securityholders allowed in any judicial proceedings relative to the Company (or any other obligor upon the Securities), its creditors or its property and shall be entitled and empowered to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same, and any Custodian in any such judicial proceedings is hereby authorized by each Securityholder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Securityholders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 7.07. Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Securityholder any plan or reorganization, arrangement, adjustment or composition affecting the Securities of any Series or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Securityholder in any such proceeding.

SECTION 6.10. Priorities.

If the Trustee collects any money or property pursuant to this Article 6 with respect to Securities of a Series, it shall pay out the money or property in the following order:

First: to the Trustee for amounts due under Section 7.07;

Second: to the Holders for amounts due and unpaid on the Securities of such Series in respect of which monies have been collected for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal and interest, respectively; and

Third: to the Company.

The Trustee, upon prior written notice to the Company, may fix a record date and payment date for any payment to Securityholders pursuant to this Section 6.10.

SECTION 6.11. Undertaking for Costs.

In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section 6.11 does not apply to a suit by the Trustee, a suit by a Holder pursuant to Section 6.07, or a suit by any Holder or a group of Holders of more than 10% in principal amount of the outstanding Securities of all Series (or, if the matter in issue does not relate to all Series of Securities, then the Holders of 10% in principal amount of the outstanding Securities of all Series to which such issue relates) (treated as a single class).

ARTICLE 7

TRUSTEE

SECTION 7.01. Duties of Trustee.

(a) The Trustee, except during the continuance of an Event of Default known to it pursuant to Section 6.01, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In an Event of Default known to the Trustee pursuant to Section 6.01 has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

(b) Except during the continuance of an Event of Default known to the Trustee pursuant to Section 6.01:

(1) the Trustee need perform only those duties as are specifically set forth in this Indenture and no others

and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; however, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture.

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(1) this paragraph does not limit the effect of paragraphs (a) and (b) of this Section 7.01;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(3) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.05.

(d) No provisions of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(e) Every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b), (c) and (d) of this Section 7.01.

(f) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree with the Company in writing. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

## SECTION 7.02. Rights of Trustee.

Subject to Section 7.01:

(a) the Trustee may rely on any document believed by it to be genuine and to have been signed or presented by the proper person; the Trustee need not investigate any fact or matter stated in the document;

(b) before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel, which shall conform to Section 10.05; the Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such certificate or opinion;

(c) the Trustee may act through its attorneys and agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care;

(d) the Trustee shall not be liable for any action it takes or omits to take in good faith which it reasonable believes to be authorized or within its rights or powers;

(e) the Trustee may consult with counsel and the advice or opinion of such counsel as to matters of law shall be full and complete authorization and protection in respect of any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel; and

(f) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of the Holders, including, without limitation, the duties, rights and powers specified in Section 6.02 hereof, unless such Holders have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by the Trustee in compliance with such request or action.

## SECTION 7.03. Individual Rights of Trustee.

The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company or its Affiliates with the same rights it



would have if it were not Trustee. Any Agent may do the same with like rights. However, the Trustee is subject to Sections 7.10 and 7.11.

SECTION 7.04. Trustee's Disclaimer.

The Trustee makes no representation as to the validity or adequacy of this Indenture or the Securities of any Series, it shall not be accountable for the recitals contained in this Indenture or for the Company's use of the proceeds from the Securities of any Series, and it shall not be responsible for any statement in the Securities of any Series, or in any prospectus used to sell the Securities of any Series, other than its certificate of authentication.

SECTION 7.05. Notice of Defaults.

If a Default or an Event of Default occurs and is continuing with respect of any Series of Securities, and if it is actually known to the Trustee pursuant to Section 6.01 hereof, the Trustee shall mail to each Holder of the Securities of such Series notice of the Default or Event of Default within 60 days after it occurs. Except in the case of a Default or an Event of Default in payment of principal of or interest on any Security or in the payment of any Sinking Fund installment, the Trustee may withhold such notice if and so long as a committee of its Trust Officers in good faith determines that withholding the notice is in the interest of Securityholders.

SECTION 7.06. Reports by Trustee to Holders.

The Trustee shall transmit to the Holder such reports concerning, among other things, the Trustee and its action under this Indenture as may be required pursuant to the TIA at the time and in compliance with TIA Section 313(a). The Trustee also shall comply with TIA Section 313(b)(2) and 313(c).

A copy of each such report at the time of its mailing to Securityholders shall be filed with the SEC and each stock exchange, if any, on which the Securities of any Series are listed.

The Company shall notify the Trustee if the Securities of any Series become listed on any stock exchange.

## SECTION 7.07. Compensation and Indemnity.

The Company shall pay to the Trustee from time to time such compensation as shall be agreed upon in writing by the Company and the Trustee. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee upon request for all reasonable disbursements, expenses and advances incurred or made by it. Such expenses shall include the reasonable compensation, disbursements and expenses of the Trustee's agents and counsel.

The Company shall indemnify the Trustee for, and hold it harmless against, any loss or liability incurred by it in connection with the administration of this trust and its duties hereunder, including the reasonable expenses of defending itself against any claim or liability arising hereunder. The Trustee shall notify the Company promptly of any claim asserted against the Trustee for which it may seek indemnity. The Company need not pay for any settlement made without its written consent, which consent shall not be unreasonably withheld. The Company need not reimburse any expense or indemnify against any loss or liability incurred by the Trustee through negligence or bad faith.

To secure the Company's payment obligations in this Section 7.07, the Trustee shall have a lien prior to the Securities of each Series on all money or property held or collected by the Trustee, in its capacity as Trustee, except money or property held in trust to pay principal of or interest on particular Securities.

When the Trustee incurs expenses or renders services after an Event of Default specified in Section 6.01(5) or (6) occurs, the expenses and the compensation for the services are intended to constitute expenses of administration under any Bankruptcy Law.

## SECTION 7.08. Replacement of Trustee.

The Trustee may resign by so notifying the Company in writing. The Holders of a majority in principal amount of the outstanding Securities of all Series (voting as a single class) may remove the Trustee by so notifying the Trustee in writing and may appoint a successor Trustee with the Company's consent. The Company may remove the Trustee if:

- (1) the Trustee fails to comply with Section 7.10;
- (2) the Trustee is adjudged a bankrupt or an insolvent;
- (3) a receiver or other public officer takes charge of the Trustee or its property; or
- (4) the Trustee becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall promptly appoint a successor Trustee. Within one year after the successor Trustee takes office, the Holders of a majority in principal amount of the Securities of all Series (voting as a single class) may appoint a successor Trustee to replace the successor Trustee appointed by the Company.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Immediately after that, the retiring Trustee shall transfer, after payment of all sums then owing to the Trustee pursuant to Section 7.07, all property held by it as Trustee to the successor Trustee, subject to the lien provided in Section 7.07, the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. A successor Trustee shall mail notice of its succession to each Securityholder.

If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holders of at least 10% in principal amount of the outstanding Securities of all Series (voting as a single class) may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If a Trustee fails to comply with Section 7.10, any Securityholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee. Any successor Trustee shall comply with TIA Section 310(a)(5).

Notwithstanding replacement of the Trustee pursuant to this Section 7.08, the Company's obligation under Section 7.07 shall continue for the benefit of the retiring Trustee.

## SECTION 7.09. Successor Trustee by Merger, etc.

If the Trustee consolidates with, merges or converts into, or transfers all or substantially all of its corporate trust business to, another corporation, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee.

## SECTION 7.10. Eligibility; Disqualification.

This Indenture shall always have a Trustee who satisfies the requirements of TIA Section 310(a)(1). The Trustee shall have a combined capital and surplus of at least \$50,000,000 as set forth in its most recent published annual report of condition. The Trustee shall comply with TIA Section 310(b).

## SECTION 7.11. Preferential Collection of Claims Against Company.

The Trustee shall comply with TIA Section 311(a), excluding from the operation of Section 311(a) any creditor relationship listed in TIA Section 311(b). A Trustee who has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated.

## ARTICLE 8

## DISCHARGE OF INDENTURE

## SECTION 8.01. Termination of Company's Obligations.

The Company may terminate its obligations under the Securities of any Series and this Indenture with respect to such Series, except those obligations referred to in the immediately succeeding paragraph, (a) if all Securities of such Series previously authenticated and delivered (other than destroyed, lost or stolen Securities of such Series which have been replaced or paid or Securities of such Series for whose payment money or securities have theretofore been held in trust and thereafter repaid to the Company, as provided in Section 8.03) have been delivered to the Trustee for cancellation and the Company has paid all sums payable by it hereunder, or (b) if, following the date on which the Company shall have given notice to the Trustee of its intention to defease all of the Securities of such Series, the Company has irrevocably deposited or caused to be deposited with the Trustee or a Paying Agent (other than the Company or a Subsidiary), under the

terms of an irrevocable trust agreement in form and substance satisfactory to the Trustee and any such Paying Agent, as trust funds in trust solely for the benefit of the Holders for that purpose, (i) in the case of any Securities of any Series denominated in United States dollars, an amount of cash sufficient to pay principal of and interest on such outstanding Securities at their respective Stated Maturities, or direct non-callable obligations of, or non-callable obligations guaranteed by, the United States of America for the payment of which guarantee or obligation the full faith and credit of the United States is pledged, including but not limited to depository receipts issued by a bank as custodian with respect to any such security held by the custodian for the benefit of the holder of such depository receipt ("U.S. Government Obligations"), maturing as to principal and interest in such amounts and at such times as are sufficient without consideration of any reinvestment of such interest, to pay principal of and interest on such outstanding Securities at their respective Stated Maturities and (ii) in the case of any Securities of any Series denominated in any currency other than United States dollars, an amount of the Required Currency sufficient to pay principal of and interest on such outstanding Securities at their respective Stated Maturities; provided that the Trustee or such Paying Agent shall have been irrevocably instructed to apply such cash, the proceeds of such U.S. Government Obligations or the Required Currency, as the case may be, to the payment of said principal and interest with respect to the Securities of such Series; and provided further, that if such irrevocable deposit in trust with the Trustee of cash, U.S. Government Obligations or the Required Currency, as the case may be, is made on or prior to one year from the Stated Maturity for payment of principal of the Securities of the applicable Series, the Company shall have delivered to the Trustee either an Opinion of Counsel with no material qualifications in form and substance satisfactory to the Trustee to the effect that Holders of such Securities (i) will not recognize income, gain or loss for Federal income tax purposes as a result of such deposit (and the defeasance contemplated in connection therewith) and (ii) will be subject to Federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred, or an applicable favorable ruling to that effect received from or published by the Internal Revenue Service.

Notwithstanding the foregoing paragraph, the Company's obligations in Sections 2.04, 2.05, 2.06, 2.07, 2.08, 4.01, 4.02, 7.07, 7.08, 8.03 and 8.04, and except as otherwise

provided in the Authorizing Resolution and/or the supplemental indenture (if any) in respect of any Series, shall survive until the Securities are no longer outstanding. Thereafter, the Company's obligations in Sections 7.07, 8.03 and 8.04 shall survive.

After any such irrevocable deposit the Trustee upon request shall acknowledge in writing the discharge of the Company's obligations under the Securities of the applicable Series and this Indenture with respect to such Series except for those surviving obligations specified above.

SECTION 8.02. Application of Trust Money.

The Trustee or Paying Agent shall hold in trust cash, U.S. Government Obligations or the Required Currency, as the case may be, deposited with it pursuant to Section 8.01, and shall apply the deposited cash, the money from U.S. Government Obligations or the Required Currency, as the case may be, in accordance with this Indenture to the payment of principal of and interest on the Securities.

SECTION 8.03. Repayment to Company.

Subject to Section 8.01, the Trustee and the Paying Agent shall promptly pay to the Company upon request any excess money held by them at any time. Subject to the provisions of applicable law, the Trustee and the Paying Agent shall pay to the Company upon request any money held by them for the payment of principal or interest that remains unclaimed for two years; provided, however, the Trustee or such Paying Agent before being required to make any payment may at the expense of the Company cause to be published once in a newspaper or general circulation in The City of New York or mail to each Holder entitled to such money notice that such money remains unclaimed and that, after a date specified therein which shall be at least 30 days from the date of such publication or mailing, any unclaimed balance of such money then remaining will be repaid to the Company. After payment to the Company, the Trustee shall be released from all further liability with respect to such money and Securityholders entitled to money must look to the Company for payment as general creditors unless a applicable abandoned property law designates another person.

## SECTION 8.04. Reinstatement.

If the Trustee or Paying Agent is unable to apply any cash, U.S. Government Obligations or the Required Currency, as the case may be, in accordance with Section 8.01 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Company's obligations under this Indenture (with respect to the applicable Series) and the Securities of the applicable Series shall be revived and reinstated as though no deposit had occurred pursuant to Section 8.01 until such time as the Trustee or Paying Agent is permitted to apply all such cash, U.S. Government Obligations and Required Currency, as the case may be, in accordance with Sections 8.01; provided, however, that if the Company has made any payment of interest on or principal of any Securities of any Series because of the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Securities to receive such payment from the cash, U.S. Governmental Obligations or the Required Currency, as the case may be, held by the Trustee or Paying Agent.

## SECTION 8.05. Indemnity for U.S. Government Obligations.

The Company shall pay, and shall indemnify the Trustee against, any tax, fee or other charge imposed on or assessed against U.S. Government Obligations deposited pursuant to Section 8.01 or the principal and interest received on such U.S. Government Obligations.

## ARTICLE 9

## AMENDMENTS, SUPPLEMENTS AND WAIVERS

## SECTION 9.01. Without Consent of Holders.

The Company, when authorized by a Board Resolution, and the Trustee may amend or supplement this Indenture or the Securities of any Series without notice to or consent of any Securityholder:

- (1) to cure any ambiguity, defect or inconsistency;
- (2) to comply with Article 5;

(3) to provide for uncertificated Securities in addition to certificated Securities;

(4) to secure the Securities in connection with Section 4.11;

(5) to make any change that does not adversely affect the rights of any Securityholder of such Series;

(6) to provide for the issuance and the terms of any particular Series of Securities, the rights and obligations of the Company and the Holders of the Securities of such Series, the form or forms of the Securities of such Series and such other matters in connection therewith as the Board of Directors of the Company shall consider appropriate in accordance with Section 2.2 hereof, including, without limitation, provisions for (a) additional or different covenants, restrictions or conditions applicable to such Series, (b) additional or different Events of Default in respect of such Series, (c) a longer or shorter period of grace and/or notice in respect of any provision applicable to such Series than is provided in Section 6.01, (d) immediate enforcement of any Event of Default in respect of such Series or (e) limitations upon the remedies available in respect of any Events of Default in respect of such Series or upon the rights of the holders of Securities of such Series to waive any such Event of Default; provided, that this paragraph (6) shall not be deemed to require the execution of a supplemental indenture to provide for the issuance of any Series of Securities unless the same shall be provided for in the Authorizing Resolution relating thereto; or

(7) to provide for a separate Trustee for one or more Series.

SECTION 9.02. With Consent of Holders.

Subject to Section 6.07, with the written consent of the Holders of at least a majority in principal amount of the outstanding Securities of all Series affected thereby (voting as a single class), the Company, when authorized by a Board Resolution, and the Trustee may amend or supplement this Indenture or such Securities without notice to any Securityholder. Subject to Section 6.07, the Holders of a majority in principal amount of the outstanding Securities of all Series affected thereby (voting as a single class) may waive compliance by the



Company with any provision of this Indenture or such Securities without notice to any Securityholder; provided, that, only the holders of a majority in principal amount of Securities of a particular Series may waive compliance with a provision of this Indenture or the Securities of such Series having applicability solely to such Series. However, without the consent of each Securityholder affected, an amendment, supplement or waiver, including a waiver pursuant to Section 6.04, may not:

- (1) reduce the amount of Securities of such Series or all Series (voting as a single class), as the case may be, whose Holders must consent to an amendment, supplement or waiver;
- (2) reduce the rate or change the Stated Maturity for payment of interest on any Security;
- (3) reduce the principal or any premium payable upon the redemption of or change the Stated Maturity of any Security;
- (4) waive a Default in the payment of the principal or interest on any Security;
- (5) make any changes in Section 6.04, 6.07 or the third sentence of this Section 9.02; or
- (6) make any Security payable in money other than that stated in the Security.

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular Series of Securities, or which modifies the rights of the Holders of Securities of such Series with respect to such covenant or other provision, shall be deemed not to affect the rights under the Indenture of the Holders of Securities of any other Series.

It shall not be necessary for the consent of the Holders under this Section to approve the particular form of any proposed amendment, supplement or waiver, but it shall be sufficient if such consent approves the substance thereof.

After an amendment, supplement or waiver under this Section becomes effective, the Company shall mail to the Holders affected thereby a notice briefly describing the amendment,

supplement or waiver. Any failure of the Company to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

SECTION 9.03. Compliance with Trust Indenture Act.

Every amendment to or supplement of this Indenture or the Securities shall comply with the TIA as then in effect.

SECTION 9.04. Revocation and Effect of Consents.

Until an amendment or waiver becomes effective, a consent to it by a Holder is a continuing consent by the Holder and every subsequent Holder of such Security or portion of such Security that evidences the same debt as the consenting Holder's Security, even if notation of the consent is not made on any Security. However, any such Holder or subsequent Holder may revoke in writing the consent as to his Security or portion of a Security. Such revocation shall be effective only if the Trustee receives the written notice of revocation before the date the amendment, supplement or waiver becomes effective.

The Company may, but shall not be obligated to, fix a record date for the purpose of determining the Holders entitled to consent to any amendment, supplement or waiver which shall be at least 30 days prior to the first solicitation of such consent. If a record date is fixed, then notwithstanding the last two sentences of the immediately preceding paragraph, those persons who were Holders at such record date (or their duly designated proxies), and only those persons, shall be entitled to consent to such amendment, supplement or waiver or to revoke any consent previously given, whether or not such persons continue to be Holders after such record date. No such consent shall be valid or effective for more than 90 days after such record date.

After an amendment, supplement or waiver becomes effective, it shall bind every Holder of a Security of such Series, unless it makes a change described in any clauses (1) through (6) of Section 9.02. In that case the amendment, supplement or waiver shall bind each Holder of a Security who has consented to it and every subsequent Holder of a Security or portion of a Security of the same Series that evidences the same debt as the consent Holder's Security.

## SECTION 9.05. Notation on or Exchange of Securities.

If an amendment, supplement or waiver changes the terms of a Security, the Trustee may require the Holder of the Security to deliver it to the Trustee. The Trustee may place an appropriate notation on the Security about the changed terms and return it to the Holder. Alternatively, if the Company or the Trustee so determines, the Company in exchange for the Security shall issue and the Trustee shall authenticate a new Security of the same Series that reflects the changed terms.

## SECTION 9.06. Trustee to Sign Amendments, etc.

The Trustee shall be entitled to receive, and shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel stating that the execution of any amendment, supplement or waiver authorized pursuant to this Article 9 is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, execute any such amendment, supplement or waiver which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

## ARTICLE 10

## MISCELLANEOUS

## SECTION 10.01. Trust Indenture Act Controls.

If any provision of this Indenture limits, qualifies, or conflicts with another provision which is required to be included in this Indenture by the TIA, the required provision shall control.

## SECTION 10.02. Notices.

Any notice or communication shall be sufficiently given if in writing and delivered in person or mailed by first-class addressed as follows:

if to the Company:

Universal Health Services, Inc.  
Universal Corporate Center  
367 South Gulph Road  
King of Prussia, Pennsylvania 19406  
Attention:

If to the Trustee:

Attention:

The Company or the Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice of communication mailed to a Securityholder shall be mailed to him at his address as it appears on the Security Register and shall be sufficiently given to him if so mailed within the time prescribed.

Failure to mail a notice of communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders. Except for a notice to the Trustee, which is deemed given only when received, if a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

SECTION 10.03. Communications by Holders with Other Holders.

Securityholders may communicate pursuant to TIA Section 312(b) with other Securityholders with respect to their rights under this Indenture or the Securities of an applicable Series. The Company, the Trustee, the Registrar and any other person shall have the protection of TIA Section 312(c).

SECTION 10.04. Certificate and Opinion as to Conditions Precedent.

Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee:

(1) an Officers' Certificate stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(2) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

SECTION 10.05 Statements Required in Certificate or Opinion.

Each certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture, other than the Officer's Certificate required by Section 4.08, shall include:

(1) a statement that the person making such certificate or opinion has read such covenant or condition;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with, provided, however, that with respect to matters of fact an Opinion of Counsel may rely on an Officers' Certificate or certificates of public officials.

SECTION 10.06 Rules by Trustee, Paying Agent, Registrar.

The Trustee may make reasonable rules for action by or at a meeting of Securityholders. The Paying Agent or Registrar may make reasonable rules for its functions.

SECTION 10.07. Legal Holidays.

A "Legal Holiday" is a Saturday, a Sunday or a day on which banking institutions in New York, New York are not required to be open. If a payment date is a Legal Holiday at a place of payment, payment may be made at that place on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period.

## SECTION 10.08. Governing Law.

THE LAWS OF THE STATE OF NEW YORK SHALL GOVERN THIS INDENTURE AND THE SECURITIES WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

## SECTION 10.09. No Adverse Interpretation of Other Agreements.

This Indenture may not be used to interpret another indenture, loan or debt agreement of the Company or any of its Subsidiaries. Any such indenture, loan or debt agreement may not be used to interpret this Indenture.

## SECTION 10.10 No Recourse Against Others.

A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. Each Securityholder by accepting a Security waives and releases all such liability.

## SECTION 10.11 Successors.

All agreements of the Company in this Indenture and the Securities shall bind its successor. All agreements of the Trustee in this Indenture shall bind its successor.

## SECTION 10.12 Duplicate Originals.

The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

## SECTION 10.13. Separability.

In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby, and a Holder shall have no claim therefor against any party hereto.

SECTION 10.14. Action of Holders When Securities Are Denominated in Different Currencies.

Whenever any action is to be taken hereunder by the Holders of two or more Series of Securities denominated in different currencies, then, for the purposes of determining the principal amount of Securities held by such Holders, the aggregate principal amount of the Securities denominated in a currency other than United States dollars shall be deemed to be that amount of United States dollars that could be obtained for such principal amount on the basis of the spot rate of exchange for such currency as determined by the Company or by an authorized exchange rate agent and evidenced to the Trustee by an Officers' Certificate as of the date the taking of such action by the Holders of the requisite percentage in principal amount of the Securities is evidenced to the Trustee. An exchange rate agent may be authorized in advance or from time to time by the Company, and may be the Trustee or its Affiliate. Any such determination by the Company or by any such exchange rate agent shall be conclusive and binding on all Holders and the Trustee, and neither the Company nor such exchange rate agent shall be liable therefor in the absence of bad faith.

SECTION 10.15. Monies of Different Currencies to Be Segregated.

The Trustee shall segregate monies, funds, and accounts held by the Trustee hereunder in one currency from any monies, funds or accounts in any other currencies, notwithstanding any provision herein which would otherwise permit the Trustee to commingle such amounts.

SECTION 10.16. Payment to Be in Proper Currency.

Each reference in any Security, or in the Authorizing Resolution and/or supplemental indenture, if any, relating thereto, to any currency shall be of the essence. In the case of any Security denominated in any currency (the "Required Currency") other than United States dollars, except as otherwise provided therein or in the related Authorizing Resolution and/or supplemental indenture, if any, the obligation of the Company to make any payment of principal or interest thereon shall not be discharged or satisfied by any tender by the Company, or recovery by the Trustee, in any currency other than the Required Currency, except to the extent that such tender or recovery shall result in the Trustee timely holding the full amount of the Required Currency. The costs and risks of any

such exchange, including without limitations, the risks of delay and exchange rate fluctuation, shall be borne by the Company; the Company shall remain fully liable for any shortfall or delinquency in the full amount of Required Currency then due and payable, and in no circumstances shall the Trustee be liable therefor. The Company hereby waives any defense of payment based upon any such tender or recovery which is not in the Required Currency, or which, when exchanged for the Required Currency by the Trustee, is less than the full amount of Required Currency then due and payable.



SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the date first written above.

UNIVERSAL HEALTH SERVICES, INC.

[SEAL]

By: -----  
Name:  
Title:

Attest: -----  
Name:  
Title:

PNC BANK, N.A.

[SEAL]

By: -----  
Name:  
Title:

Attest: -----  
Name:  
Title:

[FORM OF FACE OF SECURITY]

[The following is to be included if the Security is an Original Issue Discount Security:]

[FOR PURPOSES OF SECTIONS 1272, 1273 AND 1275 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED: (I) THE ISSUE DATE OF THIS SECURITY IS ; (II) THE YIELD TO MATURITY IS %; (III) THE ORIGINAL ISSUE DISCOUNT PER \$ FACE AMOUNT AT WHICH THE SECURITY IS ISSUED IS \$ ; AND (IV) THE [EXACT] [APPROXIMATE] METHOD HAS BEEN USED TO DETERMINE YIELD FOR THE ACCRUAL PERIOD BEGINNING AND ENDING AND THE AMOUNT OF THE ORIGINAL ISSUE DISCOUNT PER \$ FACE AMOUNT ALLOCABLE TO THE ACCRUAL PERIOD BEGINNING AND ENDING IS \$ ]

CUSIP NO.: -----

UNIVERSAL HEALTH SERVICES, INC.  
[TITLE OF SECURITY]

Rate of Interest                      Maturity Date                      Original Issue Date  
- - - - -                      - - - - -                      - - - - -

No.

Universal Health Services, Inc., a corporation duly organized and existing under the laws of the State of Delaware (herein called the "Company"), for value received, hereby promises to pay to or registered assigns, the principal sum of on the Maturity Date shown above, and to pay interest thereon, at the annual rate of interest shown above, from the Original Issue Date shown above or from the most recent Interest Payment Date (as hereinafter defined) to which interest has been paid or duly provided for, payable semi-annually on and of each year and at maturity (an "Interest Payment Date"), commencing on the first such date after the Original Issue Date, except that if the Original Issue Date is on or after a Regular Record Date but before the next Interest Payment Date, interest payments will commence on

the second Interest Payment Date following the Original Issue Date.

[reference to currency[ies] of payment and currency exchange arrangements, if applicable.]

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the person in whose name this [name of Security] is registered at the close of business on the Regular Record Date for any such Interest Payment Date, which shall be the fifteenth calendar day (whether or not a Business Day) preceding the applicable Interest Payment Date. Any such interest not so punctually paid or duly provided for, and any interest payable on such defaulted interest (to the extent lawful), will forthwith cease to be payable to the Holder on such Regular Record Date and shall be paid to the person in whose name this [name of Security] is registered at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Company, notice of which shall be given to Holders of [name of Series] not less than 15 days prior to such special record date. Payment of the principal of and interest on this [name of Security] will be made at the agency of the Company maintained for that purpose in [New York, New York or other place of payment] and at any other office or agency maintained by the Company for such purpose, in [reference to United States dollars or other currency of payment]; provided, however, that at the option of the Company payment of interest, other than interest due on the Maturity Date, may be made by check mailed to the address of the person entitled thereto as such address shall appear in the Security register. [Include the following, if applicable:] Payments on the Maturity Date will be made in immediately available funds against presentment of this [name of Security].

Reference is hereby made to the further provisions of this [name of Security] set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this [name of Security] shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, UNIVERSAL HEALTH SERVICES, INC. has caused this instrument to be executed in its corporate name by the facsimile signature of its duly authorized officers and has caused a facsimile of its corporate seal to be affixed hereunto or imprinted hereof.

UNIVERSAL HEALTH SERVICES, INC.

By: -----  
[Title of Officer]

ATTEST:

-----  
[Assistant Secretary]

DATED:

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the [name of Series] referred to in the within-mentioned Indenture.

PNC BANK, N.A.,  
as Trustee

By: \_\_\_\_\_  
Authorized Signatory

[REVERSE SIDE]

UNIVERSAL HEALTH SERVICES, INC.  
[NAME OF SECURITY]

The [name of Security] is one of a duly authorized issue of [name of Securities] of the Company (which term includes any successor corporation under the Indenture hereinafter referred to) designated as its [title of Series] (the "[name of Series]"), issued or to be issued pursuant to an Indenture, dated as of \_\_\_\_\_, 1995 (the "Indenture"), between the Company and PNC BANK, N.A., as Trustee (the "Trustee," which term includes any successor trustee under the Indenture); and under [reference to Authorizing Resolution and/or supplemental indenture (if any) relating to the Series]. The terms of this [name of Security] include those stated in the Indenture and [reference to Authorizing Resolution and/or supplemental indenture (if any) relating to the Series] and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as in effect on the date of the Indenture. Reference is hereby made to the Indenture and all [further] supplemental indentures thereto for a statement of the respective rights, limitation of rights, duties and immunities thereunder of the Company, the Trustee and the Holders and of the terms upon which the [name of Security], are, and are to be, authenticated and delivered.

This [name of Series] is a Series of Securities issued or to be issued by the Company under the Indenture, and this Series is limited in aggregate principal amount to \$ . The Indenture provides that the Securities of the Company referred to therein ("Securities"), including the [name of Series], may be issued in one or more Series, which different Series may be issued in such aggregate principal amounts and on such terms (including, but not limited to, terms relating to interest rate or rates provisions for determining such interest rate or rates and adjustments thereto, maturity, redemption (optional and mandatory), sinking fund, covenants and Events of Default) as may be provided in or pursuant to the Authorizing Resolutions and/or supplemental indenture (if any) relating to the several Series.

[The following to be included if the Securities are not redeemable prior to maturity.]

This [name of Security] may not be redeemed prior to its Maturity Date.

[The following paragraph, or other appropriate redemption provisions, to be included if the Securities are Redeemable Securities:]

The [name of Series] are subject to redemption upon not less than 30 nor more than 60 days' notice by mail, [the following clause to be included if there is a Sinking Fund:] [(1) on [annual Sinking Fund Redemption Date] in each year commencing with the year [year of first Sinking Fund payment] through operation of the Sinking Fund at a Redemption Price equal to their principal amount and (2) [at any time or from time to time] in whole or in part, at the election of the Company at a Redemption Price equal to the percentage set forth below of the principal amount to be redeemed for the respective twelve-months periods beginning [ ] of the years indicated:

[Schedule of Redemption Prices]

and thereafter at 100% of the principal amount thereof, together in each case with accrued interest to the Redemption Date.

[The following paragraph, or other appropriate Sinking Fund provision, to be included if there is a Sinking Fund for the Series:]

The Sinking Fund provides for the redemption on [first Sinking Fund Redemption Date] and on [annual Sinking Fund redemption Date] in each year thereafter through [year of final Sinking Fund date] of not less than [minimum required Sinking Fund redemption amount] principal amount nor more than [maximum permitted Sinking Fund redemption amount] principal amount of [name of Series]. [name of Series] purchased, acquired or redeemed by the Company otherwise than by redemption through the Sinking Fund may be credited against Sinking Fund requirements to the extent not previously so credited.

[The following paragraph to be included if the Securities are Redeemable Securities or Sinking Fund Securities:]

If an event of redemption of this [name of Security] in part only, a new [name of Security] or [name of Series] for the unredeemed portion hereof shall be issued in the name of the Holder hereof upon the surrender hereof.

[The following paragraph to be included if the Securities are not Original Issue Discount Securities:]

If an Event of Default, as defined in the Indenture and in the Authorizing Resolution and/or supplemental indenture (if any) relating to the [name of Series] (if there shall be any additional Events of Default specified in respect of the [name of Series]), shall occur and be continuing, the principal of all the [name of Series] may be declared due and payable in the manner and with the effect provided in the Indenture.

[If the Securities are Original Issue Discount Securities, insert schedule as to amounts which are payable on acceleration under Section 6.02 and provable in bankruptcy under Section 6.09 from time to time.]

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the [name of Series] under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in aggregate principal amount of the Securities affected thereby, voting as a single class (which may include the [name of Series]), at the time outstanding. The Indenture

also contains provisions permitting the Holders of specified percentages in aggregate principal amount of the Securities at the time outstanding to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this [name of Security] shall be conclusive and binding upon such Holder and upon all future Holders of this [name of Security] and of any [name of Security] issued upon the registration of transfer hereof or in exchange hereof in lieu hereof, whether or not notation of such consent or waiver is made upon this [name of Security].

The Indenture provides that no Holder may pursue any remedy under the Indenture unless the Trustee shall have failed to act after notice of an Event of Default and written request by Holders of at least 25% in principal amount of the [name of Securities] of the applicable Series and the offer to the Trustee of indemnity satisfactory to it; however, such provision does not affect the right to sue for enforcement of any overdue payment on any Security.

No reference herein to the Indenture and no provision of this [name of Security] or of the Indenture shall alter or impair the obligation of the company, which is absolute and unconditional, to pay the principal of and interest on this [name of Security] at the times, places and rates, and in the coin or currency, herein prescribed.

[Insert the following paragraph if not a Global Security; if a Global Security, reference transfer mechanism.]

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this [name of Security] is registrable in the Security Register upon surrender of this [name of Security] for registration of transfer at the agency of the Company provided for that purpose duly endorsed by, or accompanied by a written instrument of transfer in substantially the form accompanying this [name of Security] duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new [name of Series], of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The [name of Series] are issuable only in registered form without coupons in denominations of [currency and minimum denomination] and any integral multiple thereof. As provided



in the Indenture and subject to certain limitations therein set forth, the [name of Series] are exchangeable for a like aggregate principal amount of [name of Series] of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith (other than any such transfer taxes or similar governmental charge payable upon exchanges pursuant to section 2.11, 3A.08 or 9.05 in which case such transfer taxes or similar governmental charges shall be paid by the Company).

Prior to due presentment of this [name of Security] for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the person in whose name this [name of Security] is registered as the owner hereof for all purposes, whether or not this [name of Security] be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

[Reference to Foreign Currencies]

All terms used in this [name of Security] which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

Customary abbreviations may be used in the name of a [name of Security] holder or any assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian) and U/G/M/A/ (= Uniform Gifts to Minors Act).

The Company will furnish to any [name of Security] holder of record, upon written request, without charge, a copy of the Indenture. Requests may be made to: Universal Health Services, Inc., Universal Corporate Center, 367 Gulph Road, King of Prussia, Pennsylvania 19406, Attention:

ASSIGNMENT FORM

If you the holder want to assign this [name of Security], fill in the form below and have your signature guaranteed:

I or we assign and transfer this [name of Security] to:

-----  
-----  
-----

(Print or type name, address and zip code and social security or tax ID number of assignees)

and irrevocably appoint, \_\_\_\_\_ agent to transfer this [name of Security] on the books of the Company. The agent may substitute another to act for him.

Dated: \_\_\_\_\_ Signed: \_\_\_\_\_

-----  
(Sign exactly as name appears on the other side of this [name of Security])

Signature Guarantee: \_\_\_\_\_

NOTICE: Signature(s) must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company.

## [FULBRIGHT &amp; JAWORSKI L.L.P. LETTERHEAD]

June 14, 1995

Universal Corporate Center  
367 South Gulph Road  
King of Prussia, PA 19406

Ladies and Gentlemen:

In connection with the Registration Statement on Form S-3 (the "Registration Statement") to be filed by Universal Health Services, Inc., a Delaware corporation (the "Company"), under the Securities Act of 1933, as amended (the "Act"), relating to the public offering of up to \$150,000,000 principal amount of Debt Securities (the "Debt Securities") which may be issued under and pursuant to a proposed Indenture between the Company and PNC Bank, NA, as trustee (the "Indenture"), we, as counsel for the Company, have examined such corporate records, other documents and questions of law as we have considered necessary or appropriate for the purposes of this opinion. Our opinion set forth below is limited to the General Corporation Law of the State of Delaware.

We assume that appropriate action will be taken, prior to the offer and sale of the Debt Securities, to register and qualify such Debt Securities for sale under all applicable state securities or "blue sky" laws.

In our examination of the foregoing documents, we have assumed the genuineness of all signatures and the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

Based on the foregoing, we advise you that in our opinion the Debt Securities which may be issued and sold by the Company have been duly and validly authorized for issuance by the Company, and, when duly executed and authenticated in accordance with the terms of the Indenture and delivered and paid for as contemplated in the Prospectus (including the supplement thereto) forming part of the Registration Statement, the Debt Securities will be legal, valid and binding obligations of the Company (subject to bankruptcy, insolvency and other laws which affect the rights of creditors generally, including the laws of the State of Delaware relating to compromises, arrangements and reorganizations).

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and the reference to this firm under the caption "Legal Matters" in the Prospectus contained therein. This consent is not to be construed as an admission that we are a party whose consent is required to be filed with the Registration Statement under the provisions of the Act or the rules and regulations of the Securities and Exchange Commission promulgated thereunder.

The opinion expressed herein is solely for your benefit, and may be relied upon only by you.

Very truly yours,

Fulbright & Jaworski L.L.P.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES  
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES  
(UNAUDITED)

	FOR THE TWELVE MONTHS ENDED					FOR THE THREE MONTHS	
	DECEMBER 31,					ENDED MARCH 31,	
	1990	1991	1992	1993	1994	1994	1995
<b>EARNINGS:</b>							
Net income	\$11,607,000	\$20,319,000	\$20,020,000	\$24,011,000	\$28,720,000	\$10,287,000	\$11,841,000
Income taxes	7,060,000	10,239,000	20,933,000	11,085,000	18,209,000	6,507,000	7,503,000
Interest expense	22,589,000	8,150,000	11,414,000	8,645,000	6,275,000	1,822,000	1,614,000
Interest portion of lease\rental expense	12,946,000	13,117,000	12,075,000	11,714,000	11,012,000	2,742,000	2,750,000
Amortization of debt issuance costs	499,000	408,000	313,000	190,000	693,000	78,000	47,000
	\$54,701,000	\$52,233,000	\$64,755,000	\$55,645,000	\$64,909,000	\$21,436,000	\$23,755,000
<b>FIXED CHARGES:</b>							
Interest expense	\$22,589,000	\$8,150,000	\$11,414,000	\$8,645,000	\$6,275,000	\$1,822,000	\$1,614,000
Interest portion of lease\rental expense	12,946,000	13,117,000	12,075,000	11,714,000	11,012,000	2,742,000	2,750,000
Amortization of debt issuance costs	499,000	408,000	313,000	190,000	693,000	78,000	47,000
	\$36,034,000	\$21,675,000	\$23,802,000	\$20,549,000	\$17,980,000	\$4,642,000	\$4,411,000
Fixed charge coverage ratio	1.5	2.4	2.7	2.7	3.6	4.6	5.4

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference in this Registration Statement of our report dated February 16, 1995 on the consolidated financial statements and schedule of Universal Health Services, Inc. and Subsidiaries (the Company) included in the Company's Form 10-K for the year ended December 31, 1994, and to the use of our reports on the financial statements of the Company and Aiken Regional Medical Centers and to all references to our Firm included in this Registration Statement.

Philadelphia, Pennsylvania  
June 15, 1995

ARTHUR ANDERSEN L.L.P.

## CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated October 24, 1994, with respect to the combined financial statements of Manatee Hospitals and Health Systems, Inc. included in the Registration Statement (Form S-3) and related Prospectus of Universal Health Services, Inc. for the registration of \$150,000,000 of debt securities.

ERNST & YOUNG LLP

Tampa, Florida  
June 12, 1995

FORM T-1

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

STATEMENT OF ELIGIBILITY UNDER THE TRUST INDENTURE ACT  
OF 1939 OF A CORPORATION DESIGNATED TO ACT AS TRUSTEE

CHECK IF AN APPLICATION TO DETERMINE ELIGIBILITY  
OF A TRUSTEE PURSUANT TO SECTION 305(b)(2) / /

PNC BANK, NATIONAL ASSOCIATION  
(Exact Name of Trustee as Specified in its Charter)

NOT APPLICABLE  
(Jurisdiction of incorporation or  
organization if not a U.S. national bank)

25-1197336  
(I.R.S. Employer Identification No.)

Pittsburgh National Building  
Fifth Avenue and Wood Street, Pittsburgh, Pennsylvania 15222  
(Address of principal executive offices - Zip code)

F. J. Deramo, Vice President, PNC Bank, National Association  
23rd Floor, One Oliver Plaza, Pittsburgh, Pennsylvania 15222  
(412) 762-3666  
(Name, address and telephone number of agent for service)

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

Delaware  
(State or other jurisdiction of incorporation or organization)

23-2077891  
(I.R.S. Employer Identification No.)

367 South Gulph Road  
King of Prussia, Pennsylvania 19406  
(Address of principal executive offices - Zip code)

DEBT SECURITIES  
(Title of the indenture securities)



## ITEM 1. GENERAL INFORMATION.

Furnish the following information as to the trustee:

- (a) Name and address of each examining or supervising authority to which it is subject.
- |                                       |                  |
|---------------------------------------|------------------|
| Comptroller of the Currency           | Washington, D.C. |
| Federal Reserve Bank of Cleveland     | Cleveland, Ohio  |
| Federal Deposit Insurance Corporation | Washington, D.C. |
- (b) Whether it is authorized to exercise corporate trust powers.
- Yes. (See Exhibit T-1-3)

## ITEM 2. AFFILIATIONS WITH OBLIGOR AND UNDERWRITERS.

If the obligor or any underwriter for the obligor is an affiliate of the trustee, describe each such affiliation.

Neither the obligor nor any underwriter for the obligor is an affiliate of the trustee.

## ITEM 3 THROUGH ITEM 14.

The issuer currently is not in default under any of its outstanding securities for which PNC Bank is trustee. Accordingly, responses to Items 3 through 14 of Form T-1 are not required pursuant to Form T-1 General Instructions B.

## ITEM 15. FOREIGN TRUSTEE.

Identify the order or rule pursuant to which the foreign trustee is authorized to act as sole trustee under the indentures qualified or to be qualified under the Act.

Not applicable (trustee is not a foreign trustee).

## ITEM 16. LIST OF EXHIBITS.

List below all exhibits filed as part of this statement of eligibility.

- |               |   |  |
|---------------|---|--|
| Exhibit T-1-1 | - | Articles of Association of the trustee, with all amendments thereto, as presently in effect, filed as Exhibit 1 to Trustee's Statement of Eligibility and Qualification, Registration No. 33-58107 and incorporated herein by reference. |
| Exhibit T-1-2 | - | Copy of Certificate of the Authority of the Trustee to Commence Business, filed as Exhibit 2 to Trustee's Statement of Eligibility and Qualification, Registration No. 2-58789 and incorporated herein by reference.                     |

- Exhibit T-1-3 - Copy of Certificate as to Authority of the Trustee to Exercise Trust Powers, filed as Exhibit 3 to Trustee's Statement of Eligibility and Qualification, Registration No. 2- 58789, and incorporated herein by reference.
- Exhibit T-1-4 - The By-Laws of the trustee, as presently in effect, filed as Exhibit 4 to Trustee's Statement of Eligibility and Qualification, Registration No. 33-58107 and incorporated herein by reference.
- Exhibit T-1-5 - The consent of the trustee required by Section 321(b) of the Act.
- Exhibit T-1-6 - The copy of the Balance Sheet taken from the latest Report of Condition of the trustee published in response to call made by Comptroller of the Currency under Section 5211 U.S. Revised Statutes.

## NOTE

The answers to this statement, insofar as such answers relate to (a) what persons have been underwriters for any securities of the obligor within three years prior to the date of filing this statement, or are owners of 10% or more of the voting securities of the obligor, or are affiliates or directors or executive officers of the obligor, and (b) the voting securities of the trustee owned beneficially by the obligor and each director and executive officer of the obligor, are based upon information furnished to the trustee by the obligor and also, in the case of (b) above, upon an examination of the trustee's records. While the trustee has no reason to doubt the accuracy of any such information furnished by the obligor, it cannot accept any responsibility therefor.

-----  
Signature appears on next page

SIGNATURE

Pursuant to the requirements of the Trust Indenture Act of 1939 the trustee, PNC Bank, National Association, a corporation organized and existing under the laws of the United States of America, has duly caused this statement of eligibility to be signed on its behalf by the undersigned, thereunto duly authorized, all in the City of Pittsburgh, and Commonwealth of Pennsylvania on the 14th day of June, 1995.

PNC BANK, NATIONAL ASSOCIATION  
(Trustee)

By /s/ F. J. Deramo  
-----  
F. J. Deramo  
Vice President

## EXHIBIT T-1-5

## CONSENT OF TRUSTEE

Pursuant to the requirements of Section 321(b) of the Trust Indenture Act of 1939, as amended by the Trust Indenture Reform Act of 1990, in connection with the proposed issuance by Universal Health Services, Inc. (a Delaware Corporation) of Debt Securities, we hereby consent that reports of examination by Federal, State, Territorial, or District authorities may be furnished by such authorities to the Securities and Exchange Commission upon request therefor.

PNC BANK, NATIONAL ASSOCIATION  
(Trustee)

By /s/ F. J. Deramo

-----  
F. J. Deramo  
Vice President

Dated: June 14, 1995

## EXHIBIT T-1-6

SCHEDULE RC - BALANCE SHEET  
 FROM  
 REPORT OF CONDITION  
 Consolidating domestic and foreign subsidiaries of  
 PNC BANK, NATIONAL ASSOCIATION  
 of PITTSBURGH in the state of PENNSYLVANIA  
 at the close of business on  
 March 31, 1995  
 filed in response to call made by  
 Comptroller of the Currency,  
 under title 12, United States Code, Section 161  
 Charter Number 540  
 Comptroller of the Currency Northeastern District

## BALANCE SHEET

	Thousands of Dollars -----
ASSETS	
Cash and balances due from depository institutions	
Noninterest-bearing balances and currency and coin . . . . .	\$ 1,980,063
Interest-Bearing Balances . . . . .	3,173
Securities	
Held-to-maturity securities . . . . .	12,699,638
Available-for-sale securities . . . . .	2,363,184
Federal funds sold and securities purchased under agreements to resell in domestic offices of the bank and of its Edge and Agreement subsidiaries, and in IBFs:	
Federal funds sold . . . . .	276,350
Securities purchased under agreements to resell . . . . .	0
Loans and lease financing receivables:	
Loans and leases, net of unearned income	\$25,094,120
LESS: Allowance for loan and lease losses	646,947
	-----
Loans and leases, net of unearned income, allowance and reserve . . . . .	24,447,173
Assets held in trading accounts . . . . .	138
Premises and fixed assets (including capitalized leases) . . . . .	483,870
Other real estate owned . . . . .	55,761
Investments in unconsolidated subsidiaries and associated companies . . . . .	38,589
Customers' liability to this bank on acceptances outstanding . . . . .	52,021
Intangible assets . . . . .	717,701
Other assets . . . . .	699,623
	-----
Total Assets . . . . .	\$ 43,817,284 =====

## LIABILITIES

Deposits:		
In domestic offices . . . . .		\$ 21,366,354
Noninterest-bearing	\$ 4,976,904	
Interest-bearing	16,389,450	
In foreign offices, Edge and Agreement subsidiaries, and IBFs . . . . .		1,425,937
Noninterest-bearing	\$ 10,040	
Interest-bearing	1,415,897	
Federal funds purchased and securities sold under agreements to repurchase in domestic offices of the bank and of its Edge and Agreement subsidiaries, and in IBFs:		
Federal funds purchased . . . . .		2,023,500
Securities sold under agreements to repurchase . . . . .		5,791,230
Demand notes issued to U.S. Treasury . . . . .		714,674
Trading Liabilities . . . . .		62
Other borrowed money		
With original maturity of one year or less . . . . .		6,416,198
With original maturity of more than one year . . . . .		1,862,966
Mortgage indebtedness and obligations under capitalized leases . . . . .		5,273
Bank's liability on acceptances executed and outstanding . . . . .		52,021
Subordinated notes and debentures . . . . .		155,000
Other liabilities . . . . .		605,070
Total liabilities . . . . .		40,418,285

## EQUITY CAPITAL

Common Stock . . . . .		30,850
Surplus . . . . .		1,343,808
Undivided profits and capital reserves . . . . .		2,082,568
Net unrealized holding gains (losses) on available-for-sale securities . . . . .		(58,227)
Total equity capital . . . . .		3,398,999
Total liabilities and equity capital . . . . .		\$ 43,817,284

ASSET EXCHANGE AGREEMENT

AMONG

C/HCA DEVELOPMENT, INC.

AND

UNIVERSAL HEALTH SERVICES, INC.

AND

AIKEN REGIONAL MEDICAL CENTERS, INC.

AND

DALLAS FAMILY HOSPITAL, INC.

AND

WESTLAKE MEDICAL CENTER, INC.

AND

UHS OF DELAWARE, INC.

DATED AS OF MARCH 16, 1995

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A - Confidentiality Obligations

-v-

## SCHEDULES

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7.16	DSWOP Covenants

## ASSET EXCHANGE AGREEMENT

ASSET EXCHANGE AGREEMENT, made as of the 16th day of March 1995, by and among C/HCA DEVELOPMENT, INC., a South Carolina corporation, formerly known as AIKEN COMMUNITY HOSPITAL, INC. ("C/HCA"), UNIVERSAL HEALTH SERVICES, INC., a Delaware corporation ("UHS"), AIKEN REGIONAL MEDICAL CENTERS, INC., a South Carolina corporation ("UHS Sub"), Dallas Family Hospital Inc., a Texas corporation, Westlake Medical Center, Inc., a California corporation, and UHS of Delaware, Inc., a Delaware corporation ("UHS of Delaware"). Dallas Family Hospital Inc., Westlake Medical Center, Inc., UHS Sub and UHS of Delaware are wholly-owned subsidiaries of UHS; Dallas Family Hospital, Inc. and Westlake Medical Center, Inc. are sometimes collectively referred to herein as (the "UHS Affiliates"). UHS and UHS Sub are sometimes collectively referred to herein as (the "UHS Group").

## W I T N E S S E T H :

WHEREAS, C/HCA, through the Aiken Regional Medical Center, the Aurora Pavilion and the Carolina Cancer Center (collectively, the "C/HCA Hospitals") provides health care related services in the State of South Carolina; and

WHEREAS, Dallas Family Hospital, Inc., through the Dallas Family Hospital, provides health care related services in the State of Texas (the "Dallas Hospital") and Westlake Medical Center, Inc., through the Westlake Hospital, provides health care related services in the State of California (the "California Hospital") (the Dallas



Hospital and the California Hospital are collectively referred to herein as the "UHS Hospitals"); and

WHEREAS, immediately prior to the consummation of the transactions contemplated hereby, UHS of Delaware intends to acquire the UHS Assets from the UHS Affiliates; and

WHEREAS, C/HCA desires to exchange substantially all of the assets used by C/HCA in the operation of the C/HCA Hospitals for substantially all of the assets used by the UHS Affiliates in the operation of the UHS Hospitals and UHS, the UHS Affiliates and UHS Sub desire to effect such exchange; and

WHEREAS, C/HCA intends and desires to effectuate its portion of the above-referenced exchange in a transaction qualifying as an exchange of "like kind" property pursuant to Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code") and the UHS Affiliates and UHS of Delaware desire to sell the UHS Hospitals and UHS Sub desires to acquire the C/HCA Assets.

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties hereto agree as follows:

1. Exchange of Assets, Excluded Assets and Assumed Liabilities.

1.1 Exchange of Assets. Subject to the terms and upon satisfaction of the conditions contained herein, on the Hospital Closing Date (as defined herein), UHS, UHS of Delaware and the UHS Affiliates shall transfer, convey or assign to C/HCA, their right, title and interest in and to the UHS Assets (as defined herein), free and clear of all liens, charges and encumbrances of any nature whatsoever (collectively "Liens") except for Permitted Encumbrances (as defined herein), along with the additional consideration specified in Section 2.2 hereof, and C/HCA shall transfer,

convey or assign to UHS Sub all of C/HCA's right, title and interest in and to the C/HCA Assets (as defined herein), free and clear of all Liens except for Permitted Encumbrances. The exchange of the foregoing assets is sometimes referred to herein as (the "Exchange"). "Permitted Encumbrances" shall mean (a) the lien of current taxes not yet due and payable, (b) easements, rights of way, servitudes, restrictions and other matters which, in the aggregate, and in the sole discretion of the transferee of the UHS Assets or the C/HCA Assets, as the case may be, do not materially adversely affect the use or value of the UHS Assets or the C/HCA Assets, as the case may be, and (c) the Assumed Liabilities (as defined herein). Set forth on Schedule 1.1(a) hereto are those restrictions described in subclause (b) above which UHS has determined, in its sole discretion, are the only Permitted Encumbrances with respect to the C/HCA Assets. Set forth on Schedule 1.1(b) hereto are those restrictions described in subclause (b) above which C/HCA has determined, in its sole discretion, are Permitted Encumbrances with respect to the UHS Assets.

1.2 UHS Assets. The "UHS Assets" shall mean all personal, tangible and intangible properties, and the real property and improvements, owned or leased, of the UHS Affiliates and UHS of Delaware used in connection with the operation of the UHS Hospitals as set forth below other than the UHS Excluded Assets (as defined below), including, without limitation, those more particularly described in the Schedules to this Section 1.2, including the going concern value of the UHS Hospitals, if any.

(a) Contractual Rights: all rights and benefits of the UHS Affiliates and UHS of Delaware under those contracts relating to the operation of the UHS Hospitals as listed on Schedule 1.2(a) hereto (which also recites those contracts,

the assignment of which by their terms requires third party consent) (the "C/HCA Assumed Contracts");

(b) Licenses and Permits: to the extent permitted by applicable law and regulation, all licenses and permits held or used by the UHS Affiliates and UHS of Delaware in connection with the ownership and operation of the UHS Assets and the conduct of the operation of the UHS Hospitals as listed on Schedule 1.2(b) hereto;

(c) Equipment: all equipment, computers, computer hardware and software, tools, supplies, furniture, vehicles, and other tangible personal property and assets of the UHS Affiliates and UHS of Delaware related to the UHS Hospitals;

(d) Leases: all the interest of and the rights and benefits accruing to the UHS Affiliates and UHS of Delaware as lessee under (i) the leases relating to the UHS Leased Properties (as defined herein) and all leasehold improvements and fixtures relating thereto as defined and described in Schedule 4.6 hereto and (ii) the leases or rental agreements covering equipment, all such leases as described in Schedule 1.2(d) hereto;

(e) Current Assets: all notes receivable (including without limitation, any claims, remedies and other rights related thereto), usable inventories of supplies relating to the UHS Hospitals and prepaid expenses relating to the UHS Hospitals on the Hospital Closing Date arising in connection with the UHS Affiliates' conduct of the operations of the UHS Hospitals ("UHS Current Assets");

(f) Names, etc.: all right, title and interest the UHS Affiliates and UHS of Delaware have to use the names set forth on Schedule 1.2(f) hereto and

any variation thereof, and the trade names, trademarks, service marks, copyrights, patents and the like set forth on Schedule 1.2(f) hereto;

(g) Records: all operating data and records of the UHS Affiliates and UHS of Delaware relating to the UHS Assets, including without limitation, client lists and records, patient records, employee records, referral sources, research and development reports and records, production reports and records, equipment logs, operating guides and manuals, projections, copies of financial, accounting and personnel records, correspondence and other similar documents and records except as to medical records, if any, which are prohibited by law to be transferred and assigned without patient approval and, except as to operating guides and manuals which are proprietary to UHS;

(h) Intellectual Property: all of the intangible and intellectual property of the UHS Affiliates and UHS of Delaware used in the operation of the UHS Hospitals, products, research data, marketing plans and strategies, forecasts, trademarks, servicemarks, tradenames, licenses (if transferable), copyrights, operating rights, permits and other similar intangible property and rights relating to the UHS Hospitals as such property and rights are listed in Schedule 1.2(h); and

(i) Real Property: all of the land described in Schedule 4.6 and the improvements, fixtures and other property located thereon that is classified under Texas and California law as real property.

1.3 UHS Excluded Assets. Anything to the contrary in Section 1.2 notwithstanding, the UHS Assets shall exclude and C/HCA shall not acquire the following (collectively, the "UHS Excluded Assets"):

(a) cash and cash equivalents;

(b) any and all accounts receivable respecting an intercompany transaction among the UHS Affiliates and any other affiliate of UHS or UHS, whether or not such transaction relates to the provision of goods and services, tax sharing arrangements, payment arrangements, intercompany charges or balances, or the like;

(c) restricted funds;

(d) any and all accounts receivable of any nature whatsoever (but not including notes receivable) including, without limitation, any trade accounts receivable, any cost report receivables, claims receivables, or other open, unsettled, unpaid or unprocessed receivables, net of any corresponding payables (whether or not a positive or negative number) with respect to the Medicare, Medicaid or CHAMPUS Programs (collectively, "Accounts Receivable");

(e) those other items which C/HCA in its sole discretion determines not to acquire, as specifically set forth in Schedule 1.3 hereto;

(f) operating guides and manuals which are proprietary to UHS; and

(g) receivables of the California Hospital sold to UHS Receivables Corp.

1.4 C/HCA Assets. The "C/HCA Assets" shall mean all those personal, tangible, and intangible properties, and the real property and improvements of C/HCA used in connection with the operation of the C/HCA Hospitals as set forth below other than those C/HCA Excluded Assets (as defined below), including, without limitation, those more particularly described in the Schedules to this Section 1.4, including the going concern value of the C/HCA Hospitals, if any.

(a) Contractual Rights: all rights and benefits of C/HCA under those contracts relating to the operation of the C/HCA Hospitals as listed on Schedule 1.4(a) hereto (which also recites those contracts, the assignment of which by their terms requires third party consent) (the "UHS Assumed Contracts");

(b) Licenses and Permits: to the extent permitted by applicable law and regulation, all licenses and permits held or used by C/HCA in connection with the ownership and operation of the C/HCA Assets and the conduct of the operation of the C/HCA Hospitals as listed on Schedule 1.4(b) hereto;

(c) Equipment: all equipment, computers, computer hardware and software, tools, supplies, furniture, vehicles, and other tangible personal property and assets of C/HCA related to the C/HCA Hospitals;

(d) Leases: all the interest of and the rights and benefits accruing to C/HCA as lessee under (i) the leases relating to the C/HCA Leased Properties (as defined herein) and all leasehold improvements and fixtures relating thereto as defined and described in Schedule 3.6 hereto and (ii) the leases or rental agreements covering equipment, all such leases as described in Schedule 1.4(d) hereto;

(e) Current Assets: all notes receivable (including without limitation, any claims, remedies and other rights related thereto), usable inventories of supplies relating to the C/HCA Hospitals and prepaid expenses relating to the C/HCA Hospitals on the Hospital Closing Date arising in connection with the C/HCA's conduct of the operations of the C/HCA Hospitals ("C/HCA Current Assets");

(f) Names, etc.: all right, title and interest C/HCA has to use the names set forth on Schedule 1.4(f) hereto and any variation thereof, and the trade

names, trademarks, service marks, copyrights, patents and the like set forth on Schedule 1.4(f) hereto;

(g) Records: all operating data and records of C/HCA relating to the C/HCA Assets, including without limitation, client lists and records, patient records, employee records, referral sources, research and development reports and records, production reports and records, equipment logs, operating guides and manuals, projections, copies of financial, accounting and personnel records, correspondence and other similar documents and records except as to medical records, if any, which are prohibited by law to be transferred and assigned without patient approval and, except as to operating guides and manuals which are proprietary to C/HCA;

(h) Intellectual Property: all of the intangible and intellectual property of C/HCA owned by C/HCA and used in the operation of the C/HCA Hospitals, products, research data, marketing plans and strategies, forecasts, trademarks, servicemarks, tradenames, licenses (if transferable), copyrights, operating rights, permits and other similar intangible property and rights relating to the C/HCA Hospitals as such property and rights are listed in Schedule 1.4(h); and

(i) Real Property: all of the land described in Schedule 3.6 and the improvements, fixtures and other property located thereon that is classified under South Carolina law as real property.

1.5 C/HCA Excluded Assets. Anything to the contrary in Section 1.4 notwithstanding, the C/HCA Assets shall exclude and the UHS Group shall not acquire the following (collectively, the "C/HCA Excluded Assets"):

(a) cash and cash equivalents;

(b) any and all accounts receivable respecting an intercompany transaction among the C/HCA Hospitals and any other affiliate of C/HCA, whether or not such transaction relates to the provision of goods and services, tax sharing arrangements, payment arrangements, intercompany charges or balances, or the like;

(c) restricted funds;

(d) Accounts Receivable;

(e) those other items which the UHS Group in their sole discretion determine not to acquire, as specifically set forth in Schedule 1.5 hereto; and

(f) operating guides and manuals which are proprietary to C/HCA.

1.6 Assumed Liabilities. Other than (i) current liabilities included in the Net Working Capital of the UHS Hospitals or the C/HCA Hospitals, as the case may be, as of the Hospital Closing Date, (ii) capital lease obligations as of September 30, 1994, (iii) long term indebtedness that is expressly assumed by C/HCA or UHS Sub, as the case may be, and as described on Schedule 1.6 and (iv) liabilities related to the UHS Assumed Contracts and the C/HCA Assumed Contracts, as the case may be (collectively, (i) through (iv) hereinafter "Assumed Liabilities"), no party hereto shall incur any liabilities or obligations of any other party hereto.

1.7 Excluded Liabilities Relating to the UHS Affiliates. Notwithstanding anything to the contrary contained herein, C/HCA shall not assume any debts, obligations or liabilities of the UHS Affiliates or of UHS of Delaware not expressly assumed pursuant to Section 1.6 hereof and, with respect to the assumed current liabilities included in Net Working Capital of the UHS Hospitals as of the Hospital Closing Date, C/HCA shall not assume any debts, obligations or liabilities in excess of



those amounts of the current liabilities assumed ("UHS Excluded Liabilities"); and the UHS Affiliates and UHS of Delaware shall continue to be obligated to pay, perform and authorize such debts, obligations and liabilities and hold C/HCA Indemnified Persons (as defined herein) harmless from any such liabilities, including without limitation:

(a) any and all obligations for the payment of any long term indebtedness (including the current portion thereof) relating to the UHS Hospitals whether or not set forth on the UHS September Balance Sheet (as defined herein), other than those included as part of the Assumed Liabilities;

(b) any and all accrued interest associated with the above through the Hospital Closing Date;

(c) any and all liabilities respecting an intercompany transaction among the UHS Affiliates and UHS or any other affiliate of UHS, whether or not such transaction relates to the provision of goods and services, tax sharing arrangements, payment arrangements, intercompany charges or balances, or the like;

(d) any and all actual or contingent liabilities or obligations of or demands upon the UHS Affiliates or UHS of Delaware arising from acts or omissions (actual or alleged) prior to the Hospital Closing Date including liabilities or obligations arising from breach by the UHS Affiliates of any C/HCA Assumed Contract, or any liabilities now existing or which may hereafter exist by reason of any alleged violation of law or governmental regulation or any other claims arising out of any act or omission of the UHS Affiliates or UHS of Delaware, their employees, agents and independent contractors prior to the Hospital Closing Date including, without limitation, any malpractice claims or liabilities;

(e) any and all liabilities and costs associated with the termination of the joint venture with Comprehensive Cancer Centers - West Valley, Inc.

(f) all liabilities relating to the pension or employee benefit plans of the UHS Affiliates or UHS of Delaware or other employee compensation matters, including without limitation any liabilities with respect to accrued vacation and sick pay (except to the extent such amounts for vacation and sick pay are included in the Net Working Capital relating to the UHS Hospitals as of the Hospital Closing Date and then, only to the extent that the accrued amounts stated in the Net Working Capital relating to the UHS Hospitals as of such date are accurate as of such date);

(g) all Taxes (as defined herein) payable with respect to any activities of the UHS Affiliates or UHS of Delaware through the Hospital Closing Date and payable with respect to the transfer of the UHS Assets or the transactions contemplated hereby (except to the extent such amounts are accrued and included in the Net Working Capital relating to the UHS Hospitals as of the Hospital Closing Date and then, only to the extent of the accrued amounts stated in the Net Working Capital relating to the UHS Hospitals as of such date);

(h) any liability or obligation to any broker, finder, investment banker or other intermediary engaged by the UHS Sub, the UHS Affiliates, UHS or UHS of Delaware in connection with the sale of the UHS Assets (including, without limitation, the transactions contemplated by this Agreement;

(i) liabilities under the Medicare, Medicaid or other third party payor programs (including, without limitation, cost report payables, claims payables or other open, unsettled, unpaid, or unprocessed payables and recapture liabilities relating to such third party payor programs); and

(j) UHS Sub's, the UHS Affiliates', UHS' and UHS of Delaware's obligations and liabilities arising under this Agreement.

1.8 Excluded Liabilities Relating to C/HCA. Notwithstanding anything to the contrary contained herein, UHS and the UHS Sub shall not assume any debts, obligations or liabilities of C/HCA not expressly assumed pursuant to Section 1.6 hereof and, with respect to the assumed liabilities included in Net Working Capital of the C/HCA Hospitals as of the Hospital Closing Date, UHS and UHS Sub shall not assume any debts, obligations or liabilities in excess of those amounts of the current liabilities assumed ("C/HCA Excluded Liabilities"); and C/HCA shall continue to be obligated to pay, perform and discharge such debts, obligations and liabilities and hold UHS Indemnified Persons (as defined herein) harmless from any such liabilities, including without limitation:

(a) any and all obligations for the payment of any long term indebtedness (including the current portion thereof) relating to the C/HCA Hospitals whether or not set forth on the C/HCA September Balance Sheet (as defined herein), other than those included as part of the Assumed Liabilities;

(b) any and all accrued interest associated with the above through the Hospital Closing Date;

(c) any and all liabilities respecting an intercompany transaction among C/HCA or any affiliate of C/HCA, whether or not such transaction relates to the provision of goods and services, tax sharing arrangements, payment arrangements, intercompany charges or balances, or the like;

(d) any and all actual or contingent liabilities or obligations of or demands upon C/HCA arising from acts or omissions (actual or alleged) prior to the

Hospital Closing Date including liabilities or obligations arising from breach by C/HCA of any UHS Assumed Contract, or any liabilities now existing or which may hereafter exist by reason of any alleged violation or law or governmental regulation or any other claims arising out of any act or omission of C/HCA, their employees, agents and independent contractors prior to the Hospital Closing Date including, without limitation, any malpractice claims or liabilities;

(e) all liabilities relating to the pension or employee benefit plans of C/HCA or other employee compensation matters, including without limitation any liabilities with respect to accrued paid time off ("PTO") (except to the extent such amounts for PTO are included in the Net Working Capital relating to the C/HCA Hospitals as of the Hospital Closing Date and then, only to the extent that the accrued amounts stated in the Net Working Capital relating to the C/HCA Hospitals as of such date are accurate as of such date);

(f) all Taxes (as defined herein) payable with respect to any activities of the C/HCA Hospitals through the Hospital Closing Date and payable with respect to the transfer of the C/HCA Assets or the transactions contemplated hereby (except to the extent such amounts are accrued and included in the Net Working Capital relating to the C/HCA Hospitals as of the Hospital Closing Date and then, only to the extent of the accrued amounts stated in the Net Working Capital relating to the C/HCA Hospitals as of such date);

(g) any liability or obligation to any broker, finder, investment banker or other intermediary engaged by C/HCA in connection with the sale of the C/HCA Assets (including, without limitation, the transactions contemplated by this Agreement);

(h) liabilities under the Medicare, Medicaid or other third party payor programs (including, without limitation, cost report payables, claims payables or other open, unsettled, unpaid, or unprocessed payables and recapture liabilities relating to such third party payor programs); and

(i) C/HCA's obligations and liabilities arising under this Agreement.

2. Hospital Closing, Additional Consideration and Instruments of Transfer and Conveyance.

2.1 Hospital Closing Date. The Hospital Closing shall take place on the date which is five days after all of the conditions precedent to the Hospital Closing have been satisfied or waived at the offices of Columbia/HCA Healthcare Corporation, One Park Plaza, Nashville, Tennessee 37203, or at such other time and place as the parties hereto may agree; provided that such date shall be no later than April 30, 1995. The date of the Hospital Closing is referred to herein as (the "Hospital Closing Date"). The Hospital Closing shall be effective as of 12:01 a.m. on May 1, 1995 (the "Effective Time").

2.2 Additional Consideration.

(a) Contemporaneously with the Hospital Closing, on the Hospital Closing Date, UHS or the UHS Sub shall deposit the sum of \$45,231,155, subject to adjustment as provided herein (the "Cash Deposit"), with a qualified intermediary designated by C/HCA for the purpose of allowing C/HCA to treat the Exchange as a like-kind exchange of assets for tax purposes.

(b) The Cash Deposit shall be subject to the following adjustments at the Hospital Closing:

(i) if Net Working Capital (as defined below) of the C/HCA Hospitals less the Net Working Capital of the UHS Hospitals is less than \$482,225, the Cash Deposit shall be reduced by such amount as such difference is less than \$482,225, on a dollar-for-dollar basis. If Net Working Capital of the C/HCA Hospitals less the Net Working Capital of the UHS Hospitals is greater than \$482,225, the Cash Deposit shall be increased by such amount as such difference is greater than \$482,225 on a dollar-for-dollar-basis. As used herein, "Net Working Capital" means the sum of usable inventories, prepaid expenses, sums due from TCOM, medical office building rent receivables and other current assets less accounts payable (other than liabilities included within the C/HCA Excluded Liabilities or the UHS Excluded Liabilities), accrued payroll and benefits, accrued vacation and paid time off, accrued property taxes and accrued miscellaneous expenses of the UHS Hospitals or C/HCA, as the case may be, all items calculated as of the Hospital Closing Date in accordance with Schedule 2.2 hereof provided that the parties agree that physician loans and assets associated with physician loans are not included in "Net Working Capital" although physician loans and assets associated with physician loans shall constitute a C/HCA Asset or a UHS Asset, as the case may be, to be transferred unless such physician loans and/or assets associated therewith have been designated as part of the C/HCA Excluded Assets or the UHS Excluded Assets;

(ii) to the extent that C/HCA assumes capital lease obligations of the UHS Affiliates, other than in existence on September 30, 1994, and then only with respect to up to \$400,000 of such obligations in the aggregate, and any other long-term indebtedness which is not included in the calculation of Net Working Capital, the Cash Deposit shall be increased on a dollar-for-dollar basis of such amount;

(iii) to the extent that UHS assumes capital lease obligations of C/HCA, other than in existence on September 30, 1994, and then only with respect to up to \$400,000 of such obligations in the aggregate, and any other long-term indebtedness which is not included in the calculation of Net Working Capital, the Cash Deposit shall be reduced on a dollar-for dollar basis of such amount; and

(c) The Net Working Capital specified in subsection (b) hereof shall be estimated in good faith at the Hospital Closing to the extent reasonably possible based on the latest available unaudited balance sheets of C/HCA and UHS Affiliates prior to the Hospital Closing and shall be set forth in a preliminary closing statement (the "Preliminary Closing Statement"). No later than sixty (60) days after the Hospital Closing ("Hospital Closing Statement Date"), the parties shall prepare the final closing statement (the "Final Closing Statement") reflecting the Net Working Capital determined in accordance with the terms of this Agreement and the example provided by Schedule 2.2. Adjustments made after the Hospital Closing based on the Final Closing Statement shall be payable in cash, on or before the tenth day following the day the Final Closing Statement is agreed upon. If the parties are unable to agree on the Final Closing Statement within thirty (30) days after the Hospital Closing Statement Date, the calculations, and all supporting documentation, shall be submitted for determination to the Charleston, South Carolina office of Peat Marwick, a firm of independent certified public accountants of recognized national standing (the "Accountant") as expert and not as arbitrator. The foregoing provisions for review by Accountant shall be specifically enforceable by the parties; the decision of such Accountant shall be final and binding on the parties; there shall be no right of appeal from such decision; and such Accountant's fees and expenses for such disputed

determination shall be borne by the party whose determination has been modified by the Accountant's report or by both parties in proportion to the relative amount each party's determination has been modified. The parties shall pay each other pursuant to such determination the appropriate adjustment amounts within ten (10) business days of the earlier of (i) delivery of the Accountant's calculation, or (ii) the parties' agreement respecting the amount due.

(d) As used herein "usable inventory" shall mean that inventory which is not obsolete. In determining what portion of the inventory constituting the inventory which is part of the UHS Assets or the C/HCA Assets, as the case may be, and which is valued in the calculation of Net Working Capital as provided herein, each party shall conduct a physical count of the inventory on hand as of the Hospital Closing Date and shall allow a representative of the other party to monitor the same (the "Monitoring Party"). Should the Monitoring Party determine that any of the inventory is obsolete (the "Obsolete Inventory") and not of use in the business being acquired, then such Obsolete Inventory shall not be included in the valuation of the usable inventory which makes up a part of the UHS Assets or C/HCA Assets, as the case may be. Any disputes with respect to whether or not particular inventory is Obsolete Inventory shall be subject to the same dispute resolution as applies to disputes in the Net Working Capital calculation as set forth in paragraph (c) of this Section.

### 2.3 Instruments of Conveyance and Transfer of Books and Records.

(a) At the Hospital Closing, C/HCA and the UHS Affiliates and UHS of Delaware shall deliver to each other such deeds, bills of sale, endorsements, assignments, assumptions and other instruments of sale, conveyance, transfer, assignment, and assumption, satisfactory in form and substance to each party and its



counsel, as may be reasonably requested by the such party, in order to convey to C/HCA or the UHS Group, as the case may be, good and marketable title to the UHS Assets or the C/HCA Assets, respectively, free and clear of all Liens except Permitted Encumbrances. C/HCA and the UHS Affiliates shall pay all sales, transfer or stamp taxes, or similar charges, payable by reason of the Exchange with respect to their property being exchanged.

(b) At the Hospital Closing, C/HCA and the UHS Affiliates and UHS of Delaware shall deliver to the other party all written consents which are required under any UHS Assumed Contract or C/HCA Assumed Contract, respectively, being assigned hereunder; provided, however, that as to any such Assumed Contract the assignment of which by its terms requires prior consent of the parties thereto, if such consent is not obtained prior to or on the Hospital Closing Date, C/HCA or the UHS Affiliates or UHS of Delaware shall deliver to the other party written documentation setting forth arrangements for the transfer of the economic benefit of such Assumed Contracts to the other party as of the Hospital Closing Date under terms and conditions acceptable to all the parties hereto, in accordance with the terms of Sections 9.1 and 9.2 hereof.

(c) At the Hospital Closing, C/HCA and the UHS Affiliates and UHS of Delaware shall deliver special warranty deeds to the C/HCA Owned Property and the UHS Owned Property, respectively, in form acceptable to the other party and its counsel with good and marketable fee simple title, free and clear of all Liens, except for Permitted Encumbrances. C/HCA and the UHS Affiliates and UHS of Delaware shall deliver evidence of good, marketable and insurable title to the C/HCA Owned Property and the UHS Owned Property in the form of an ALTA Owner's or (in the

case of UHS Leased Property) Lessee's Policy of Title Insurance (Form B, 1970) in an aggregate amount acceptable to the other party (the "Title Policy"). The Title Policy will be issued by a title insurance company satisfactory to the other party (such company hereinafter called the "Title Company"), and shall insure UHS Sub's fee simple title to the C/HCA Owned Property and C/HCA's fee simple or leasehold (as the case may be) title to the UHS Real Property, and the appurtenant rights, privileges and easements, subject only to Permitted Encumbrances and such other exceptions as the other party shall approve in writing. Such policy shall provide full coverage against mechanics' or materialmen's liens arising out of any work, labor, materials or services furnished or claimed to have been furnished to the C/HCA Real Property or the UHS Real Property, as the case may be, or any part thereof prior to the Hospital Closing, and shall contain endorsements insuring over all other printed or standard general exceptions, a 3.1 zoning endorsement, a contiguity endorsement, an access endorsement and such other endorsements as specified herein or as the other party may reasonably require. C/HCA and the UHS Affiliates and UHS of Delaware shall also furnish to the other party, as soon as possible, but no later than the Hospital Closing Date, an "as built" survey(s) with respect to the C/HCA Real Property and the UHS Real Property, as the case may be. Such survey(s) shall be prepared by a surveyor licensed in the state where the C/HCA Real Property or the UHS Real Property, as the case may be, is located who is satisfactory to the other party and shall be in accordance with ALTA-ACSM standards for Class A urban-commercial surveys, shall be dated subsequent to the date of this Agreement, shall be certified in favor of both parties and the Title Company, shall depict the subject land and the improvements, show all manholes, structures and utility lines, in, over, under or upon such land and the locations of all

easements upon such land or appurtenant thereto (which shall be identified by a recording office instrument number), locate and number the parking spaces on such land, locate all set back lines and similar restrictions covering the C/HCA Real Property and the UHS Real Property, as the case may be, and any violation of such restrictions, and all other matters which are ascertainable by a careful inspection and survey of the C/HCA Real Property and the UHS Real Property, as the case may be. The survey(s) shall also show that there are no encroachments of any improvements or easements, public rights-of-way or other adjacent properties, or encroachments of other improvements located on adjoining properties onto any of the C/HCA Real Property and the UHS Real Property, as the case may be. C/HCA and the UHS Affiliates shall equally share the costs of all premiums and other expenses relating to all such survey and title insurance policy commitments required to be delivered herein and recording fees payable by reason of the delivery or recording of the special warranty deeds to the C/HCA Real Property or the UHS Real Property, subject to Section 12 hereof.

(d) Any transfer of the UHS Assets by the UHS Affiliates to UHS of Delaware for further transfer to C/HCA shall occur and be effective no earlier than immediately prior to the Hospital Closing on the Hospital Closing Date.

2.4 Disclaimer of Warranties. Except as expressly set forth herein, the C/HCA Assets and the UHS Assets, respectively, are to be transferred in their condition on the Hospital Closing Date, " AS IS," WITH NO WARRANTY OF HABITABILITY OR FITNESS FOR HABITATION, WITH RESPECT TO LAND, BUILDINGS AND IMPROVEMENTS, AND WITH NO WARRANTIES, INCLUDING, WITHOUT LIMITATION, THE WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, with respect to the equipment, inventory, and supplies, any and

all of which warranties (both express and implied) C/HCA and the UHS Affiliates and UHS of Delaware, respectively, hereby disclaim. All of the C/HCA Assets and the UHS Assets shall be further subject to normal wear and tear on the land, buildings, improvements and equipment and normal and customary use of the inventory and supplies up to the Hospital Closing.

3. Representations and Warranties of C/HCA.

In order to induce UHS, UHS Sub, the UHS Affiliates and UHS of Delaware to enter into and perform this Agreement, C/HCA represents, warrants and agrees as follows:

3.1 Organization, Capitalization, Authorization, Etc.

3.1.1 Organization. C/HCA is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation, with all the requisite power and authority to execute, deliver and perform this Agreement and to hold the properties, rights and assets and to carry on the business now conducted by it. C/HCA is qualified to do business as a foreign corporation in each jurisdiction in which the nature of the business conducted by it or its ownership or leasing of property make such qualification necessary.

3.1.2 Governing Documents. Copies of the Articles of Incorporation and By-Laws of C/HCA have heretofore been delivered to the UHS Group and are true, complete and correct.

3.2 Ownership of Assets. Except as set forth in Schedule 3.2 hereto, C/HCA is the legal and beneficial owner of the C/HCA Assets described in Section 1.4 hereof, free and clear of any Liens other than Permitted Encumbrances, and C/HCA has full right, power and authority to sell, transfer, assign, convey and deliver all of the

C/HCA Assets to be transferred by it hereunder and delivery thereof will convey to the UHS Group good and marketable title to said C/HCA Assets, free and clear of any Liens other than Liens created by the UHS Group and Permitted Encumbrances. Except as set forth on Schedule 3.2 hereof, no equipment (as specified in Section 1.4(c) hereof) has been removed from the C/HCA Hospitals since November 1, 1994.

3.3 Authority and No Conflict. (a) C/HCA has full right, power and authority to execute, deliver and carry out the terms of this Agreement and all documents and agreements necessary to give effect to the provisions of this Agreement, and this Agreement has been duly authorized, executed and delivered by C/HCA. Except as set forth on Schedule 3.3, the execution and delivery of this Agreement by C/HCA does not, and consummation of the transactions contemplated hereby will not (a) conflict with, or result in any violation of or default or loss of any benefit under, any provision of the Articles of Incorporation or By-laws of C/HCA; (b) conflict with, or result in any violation of or default or loss of any material benefit under, any permit, concession, grant, franchise, law, rule or regulation, or any judgment, decree or order of any court or other governmental agency or instrumentality to which C/HCA is a party or to which any of C/HCA's properties are subject; (c) conflict with, or result in a breach or violation of or default or loss of any material benefit under, or accelerate the performance required by, the terms of any agreement, contract, indenture or other instrument to which C/HCA is a party or to which any of C/HCA's properties is subject, or constitute a default or loss of any right thereunder or an event which, with the lapse of time or notice or both, might result in a default or loss of any right thereunder or the creation of any Lien upon any of the assets or properties of C/HCA; or (d) result in any suspension, revocation, impairment, forfeiture or nonrenewal of (i) any License

(as defined herein) relating to the ownership and operation of health care facilities which is material to the operation of the C/HCA Assets or (ii) any other material License. All corporate action prerequisite to the execution of this Agreement and the consummation of the transactions contemplated by this Agreement has been taken by C/HCA. This is a valid and binding agreement of C/HCA enforceable in accordance with its terms except as enforceability may be restricted, limited or delayed by applicable bankruptcy or other laws affecting creditors' rights generally and except as enforceability may be subject to general principles of equity.

(b) The execution, delivery and performance by C/HCA of this Agreement, and the performance of the transactions contemplated by this Agreement, do not require the authorization, consent, approval, certification, license or order of, or any filing with any court or governmental agency of such a nature that the failure to obtain the same would have a material adverse effect on the C/HCA Assets, except for compliance with the HSR Act (as defined herein) and the FTC Consent Order (as defined herein) and except for such governmental authorizations, consents, approvals, certifications, licenses and orders that customarily accompany the transfer of health care facilities such as the C/HCA Hospitals.

3.4 Financial Statements, Books and Records, and Change in Condition.

3.4.1 Financial Statements Provided. C/HCA has delivered to the UHS Group true, correct and complete copies of the unaudited balance sheet of C/HCA as of September 30, 1994 (the "C/HCA September Balance Sheet") and the related statements of operations, and statements of retained earnings and cash flows for the 9 months then ended, (the "C/HCA September Financial Statements"). The C/HCA September Financial Statements have been prepared from the books and records of

C/HCA and have been prepared in accordance with generally accepted accounting principles consistently followed throughout the period covered thereby (except as set forth on Schedule 3.4.1), and the balance sheet included therein presents fairly as of its date the financial condition of C/HCA. The statements of operations, and statements of retained earnings and cash flows included in the C/HCA September Financial Statements present fairly the results of operations, retained earnings and cash flows of C/HCA for the periods indicated.

3.4.2 Inventories. All inventories of C/HCA set forth on the C/HCA September Balance Sheet, and all inventories acquired subsequent to September 30, 1994 (the "Balance Sheet Date") are valued at the lower of cost (applied on a first-in-first-out basis) or market in accordance with generally accepted accounting principles. All inventories included in the C/HCA Assets consist, and at the Hospital Closing will consist, of a quality and quantity usable and saleable in the ordinary course of business without discount or reduction, except for items of obsolete materials, all of which will be written down at the Hospital Closing to realizable market value. The present quantities of inventory of C/HCA are, and at the Hospital Closing will be, reasonable and warranted in the present and then circumstances of the C/HCA Hospitals.

3.4.3 Events Subsequent to the Balance Sheet Date. Since the Balance Sheet Date there has been no material adverse change in the assets or liabilities, or in the business or condition, financial or otherwise, or in the results of operations or prospects, of C/HCA, whether as a result of any legislative or regulatory change, revocation of any License or right to do business, fire, explosion, accident, casualty, labor trouble, flood, drought, riot, storm, condemnation or act of God or

otherwise, and, to the best knowledge of C/HCA, no fact or condition exists or is contemplated or threatened which could reasonably be anticipated to cause such a change in the future.

Except as set forth on Schedule 3.4.3 and except for seasonality changes, since the Balance Sheet Date, C/HCA has not (a) borrowed any amount or incurred or become subject to any liability (absolute, accrued or contingent), except current liabilities incurred and liabilities under contracts entered into, all of which were in the ordinary course of business; (b) discharged or satisfied any Lien or incurred or paid any obligation or liability (absolute, accrued or contingent) other than current liabilities shown on the most recent balance sheet included in the C/HCA September Financial Statements and current liabilities incurred since the Balance Sheet Date in the ordinary course of business; (c) declared or made any payment or distribution (whether in cash, securities, other property or any combination thereof) on or in respect of the capital stock of C/HCA; (d) mortgaged, pledged or subjected to Lien any of its assets, tangible or intangible (including the C/HCA Assets), other than Liens of current real property taxes not yet due and payable; (e) sold, assigned or transferred any of its tangible assets except in the ordinary course of business, or canceled any debt or claim; (f) sold, assigned, transferred or granted any license with respect to any trademark, trade name, service mark, copyright, trade secret or other intangible asset; (g) suffered any loss of property or waived any right of substantial value whether or not in the ordinary course of business; (h) suffered any material adverse change in its relations with, or any loss or threatened loss of, any of its material suppliers, managed care contracts, physician relationships or Medicare or Medicaid contracts; (i)(1) entered into any employment, deferred compensation or other similar agreement (or any amendment to any such



existing agreement) or arrangement with any of its directors, officers or employees, (2) increased any benefits payable under any existing severance or termination pay policies or employment agreements, or (3) increased the compensation, bonus or other benefits payable to any of its directors, officers or, other than in the ordinary course of business and consistent with past practice, employees; (j) made any material change in the manner of its business or operations, including without limitation any change in the manner in which it extends credit to patients or otherwise deals with patients; (k) made any material change in any method of accounting or accounting practice, except for any such changes required by reason of a concurrent change in generally accepted accounting principles; (l) written off as uncollectible any accounts or notes receivable in excess of reserves; (m) been the subject of any labor dispute or threat thereof; (n) entered into any transaction except in the ordinary course of business or as otherwise contemplated hereby; or (o) entered into any commitment (contingent or otherwise) to do any of the foregoing.

3.5 Absence of Undisclosed Liabilities. C/HCA does not have any direct debt, liability or obligation of any nature, whether accrued, absolute, contingent or otherwise, and whether due or to become due, which is not reflected or reserved against in the C/HCA September Financial Statements except for (a) those which are not required by generally accepted accounting principles to be so reflected, (b) those which were incurred in the ordinary course of business and are usual and normal in amount both individually and in the aggregate, and (c) any debt, liability or obligation otherwise disclosed in this Agreement or the Schedules hereto.

## 3.6 Real Property.

(a) Schedule 3.6 hereto identifies all interests in real property including land and improvements held by C/HCA as of the date hereof, together with the nature of such interest. To the extent that any such interest is shared, Schedule 3.6 also sets forth the nature and proportion of the sharing arrangement. Each of the properties on Schedule 3.6 is identified either as a property in which C/HCA holds all or a portion of the fee title (individually, an "C/HCA Owned Property" and collectively, the "C/HCA Owned Properties"), or all or a portion of a leasehold estate in the property (individually, a "C/HCA Leased Property" and collectively, the "C/HCA Leased Properties"). The C/HCA Owned Properties and the C/HCA Leased Properties are collectively referred to herein as "C/HCA Real Property."

(b) Except as set forth on Schedule 3.6, C/HCA has good, valid and marketable title to each C/HCA Owned Property free and clear of all Liens whatsoever except for Permitted Encumbrances. C/HCA's occupation, possession and use of the C/HCA Leased Properties has not been disturbed and no claim has been asserted or, to the best knowledge of C/HCA, threatened, adverse to the respective rights of C/HCA to the continued occupation, possession and use of the C/HCA Leased Properties, as currently utilized and as presently contemplated to be utilized.

(c) No portion of the C/HCA Real Property has suffered any material damage by fire or other casualty which heretofore has not been completely repaired and restored to its original condition. No person other than C/HCA owns any C/HCA Improvements (as defined below) necessary to the operation of the business of C/HCA, except for leased C/HCA Improvements disclosed on Schedule 3.6.

(d) The use and operation of the C/HCA Real Property and all buildings, structures, improvements, fixtures, facilities, equipment, all components of all buildings, structures and other improvements included within the C/HCA Real Property including, but not limited to, the roofs and structural elements thereof and the heating, ventilation, air conditioning, plumbing, electrical, mechanical, sewer, waste water, storm water, paving and parking equipment, systems and facilities included therein (collectively, the "C/HCA Improvements") by C/HCA is lawful and in full compliance with all use statutes, rules, regulations, ordinances, orders, writs, injunctions, judgments, decrees, awards and restrictions, including without limitation, zoning and land use laws (collectively, "Use Laws") of every person, including, without limitation, any foreign or domestic court, administrative agency or commission or other governmental authority or instrumentality (a "Government Entity") having jurisdiction over any such C/HCA Real Property and C/HCA Improvements. The construction and use of the C/HCA Improvements on each parcel of C/HCA Real Property is lawful and in full compliance with all use statutes, rules, regulations, ordinances, orders, writs, injunctions, judgments, decrees, awards and restrictions, including without limitation, all laws relating to the construction and safety of the C/HCA Improvements and access thereto by the handicapped (collectively, "Construction Laws" and, collectively with the Use Laws, "Real Property Laws") of every Governmental Entity having jurisdiction over any such C/HCA Real Property and C/HCA Improvements. Effective as of the Hospital Closing, the UHS Group shall have the right under all Real Property Laws to continue the use and operation of the C/HCA Real Property and C/HCA Improvements for their current uses in the operation of the business of C/HCA as presently operated. To the best of C/HCA's knowledge for the past six years, C/HCA has not received any notice

of any violation of or investigation regarding any Real Property Laws. None of the C/HCA Real Property or the C/HCA Improvements, the appurtenances thereto or the equipment therein or the operation or maintenance thereof violates any restrictive covenant or, except as shown on the survey, encroaches on any property owned by others or any easement, right of way or other encumbrance or restriction affecting the C/HCA Real Property and/or C/HCA Improvements in any manner which would, individually or in the aggregate, interfere in any material respect with the use, occupancy or operation thereof as currently used, occupied and operated. To the best knowledge of C/HCA and except as shown on the survey, no building or structure of any third party encroaches upon the C/HCA Real Property or any easement or right of way benefitting the C/HCA Real Property. The C/HCA Real Property and its continued use, occupancy and operation as currently used, occupied and operated does not constitute a nonconforming use under any Real Property Law. C/HCA has provided the UHS Group with copies of the most recent title reports in their possession relating to the C/HCA Real Property and all title insurance policies currently in effect with respect to such C/HCA Real Property.

(e) C/HCA has not received notice of, nor does it otherwise have knowledge of, any condemnation, fire, health, safety, building, zoning or other land use regulatory proceedings, either instituted or planned to be instituted, which would have a material adverse effect on the use and operation of any portion of the C/HCA Real Property and/or C/HCA Improvements for their respective intended purposes or the value of any material portion of the C/HCA Real Property or C/HCA Improvements, nor has C/HCA received notice of any special improvements, liens, assessments or assessment proceedings affecting any of the C/HCA Real Property or C/HCA

Improvements, nor has C/HCA received any written notice of violation or claimed violation of any Real Property Law.

(f) All water, sewer, gas, electric, telephone and drainage facilities, and all other utilities required by any applicable law or by the current use and operation of the C/HCA Real Property and C/HCA Improvements are installed to the property lines of the C/HCA Real Property, are connected pursuant to valid permits to municipal or public utility services or proper drainage facilities, are fully operable and are adequate to service the C/HCA Real Property and C/HCA Improvements as currently used in the operation of the business of the C/HCA Hospitals and to permit full compliance with the requirements of all Real Property Laws. C/HCA has no knowledge or notice of any fact or condition which could result in the termination or reduction of the current access from the C/HCA Real Property to existing roads or to sewer or other utility services presently serving the C/HCA Real Property.

(g) All licenses, permits, certificates (including without limitation certificates of occupancy), easements and rights of way, including proof of dedication, required from all Governmental Entities having jurisdiction over the C/HCA Real Property for the use and operation of the C/HCA Real Property and C/HCA Improvements as currently used in the operation of the business of C/HCA and to ensure vehicular and pedestrian ingress to and egress from the C/HCA Real Property have been obtained, except where the failure to obtain any such license, permit, certificate, easement or right of way would not have a material adverse effect on the value or use of the C/HCA Real Property by C/HCA or the UHS Group. Except as set forth on Schedule 3.6, the transactions contemplated hereby will not require the issuance of any new or amended license, permit or certificate.

(h) None of the C/HCA Real Property is located in an area identified as a "flood hazard area" by the United States Department of Housing and Urban Development except as shown in the survey obtained as part of Schedule 3.6 hereto which, to C/HCA's knowledge, is accurate and complete in all respects. C/HCA has not granted any easements or entered into an arrangement or agreement since the date of the survey which would cause any change to be made in such survey if such survey was performed as of the date hereof.

3.7 Property to Operate C/HCA Hospitals. The C/HCA Assets constitute, in the aggregate, all the assets and property necessary for the conduct of the C/HCA Hospitals as currently conducted.

3.8 Trade Names, Trademarks, Copyrights, Etc. Schedule 3.8 contains a schedule of all trade names, trademarks, service marks, copyrights, patents or applications for patents, and trade secrets used by C/HCA in the operation of its business and of the C/HCA Hospitals or in which they have any rights (including licenses), together with a brief description of each. To the best of C/HCA's knowledge, C/HCA has not infringed, and is not now infringing, any trade name, trademark, service mark, copyright, patent or trade secret belonging to a third party and C/HCA has not received any notice of infringement upon or conflict with the asserted rights of others. Except as set forth on Schedule 3.8 hereto, none of such names, marks, copyrights or patents, however, are registered with the United States Patent and Trademark Office or the United States Copyright Office. To the knowledge of C/HCA there are no trade names, trademarks, service marks, copyrights, patents or applications for patents and trade secrets other than those listed on Schedule 3.8 which are necessary for the conduct of C/HCA's business as now being conducted, the loss of which could materially

and adversely affect the prospects, operations or condition, financial or otherwise, of the C/HCA. No director, officer, stockholder, or, to the best knowledge of C/HCA, employee, of C/HCA or the C/HCA Hospitals or any predecessor has any interest in any of the foregoing rights.

3.9 Litigation. Except as set forth on Schedule 3.9 hereto, there is no action, suit, arbitration, proceeding or investigation pending or, to the best knowledge of C/HCA, threatened against C/HCA or affecting the C/HCA Assets by or before any Governmental Entity, or any basis in fact therefor known to C/HCA, against C/HCA or involving the C/HCA Assets, whether at law or in equity.

3.10 Compliance with Laws.

(a) To the best of C/HCA's knowledge, C/HCA is in compliance with all applicable laws, rules or regulations relating to or affecting the operation, conduct or ownership of its respective properties or business (including without limitation any that relate to the ownership and operation of hospitals and health care facilities, consumer protection, health and safety, products and services, proprietary rights, collective bargaining, equal opportunity and improper payments) (collectively, "Laws"), except for violations that individually or in the aggregate would not and, insofar as may reasonably be foreseen, in the future will not, have a material adverse effect on the business or operations of C/HCA. C/HCA, nor, to the best knowledge of C/HCA, any director, officer, consultant or employee of C/HCA, is in default with respect to any order, writ, injunction or decree, known to, or served upon, C/HCA, of any Governmental Entity. To the best knowledge of C/HCA, there is no existing Law, other than Laws of general applicability to healthcare providers, which would prohibit or materially restrict C/HCA from, or otherwise materially adversely affect C/HCA in,

conducting its business in any jurisdiction in which it is now conducting business or in which it currently proposes to conduct business.

(b) C/HCA has not received any notice of any claim, requirement or demand of any Governmental Entity having or claiming any licensing, certifying, supervising, evaluating or accrediting authority over C/HCA or its business to rework or redesign the C/HCA Hospitals, medical staff or professional services, procedures or practices in any material respect or to provide additional furniture, fixtures, equipment or inventory so as to make the C/HCA Hospitals conform to or comply with applicable law.

(c) To the best of C/HCA's knowledge, C/HCA and its respective officers and directors, and those physicians who are under contract or have otherwise entered into a written agreement with C/HCA (and then, only with respect to activities of such physicians under and with respect to such contracts or agreements), have not engaged in any activities which are prohibited under any Laws, or the regulations promulgated pursuant to such Laws or related state or local laws, statutes or regulations.

### 3.11 Contracts.

(a) C/HCA has no existing contract, obligation or commitment (written or oral) of any nature, including without limitation the following, except as set forth on Schedule 3.11:

(i) Employment, bonus, severance or consulting agreements, retirement, stock bonus, stock option, or similar plans;

(ii) Loan or other agreements, notes, indentures, or instruments relating to or evidencing indebtedness for borrowed money or mortgaging,



pledging or granting or creating a lien or security interest or other encumbrance on any of the assets of C/HCA or any agreement or instrument evidencing any guaranty by C/HCA of payment or performance by any other person;

(iii) Agreements with any labor union or collective bargaining organization or other labor agreements;

(iv) Any contract or series of contracts with the same person for the furnishing or purchase of equipment, goods or services;

(v) Any joint venture contract or arrangement or other agreement involving a sharing of profits or expenses to which C/HCA is a party or by which it is bound;

(vi) Agreements which would, after the Hospital Closing Date, limit the freedom of the UHS Group to compete in any line of business or in any geographic area or with any person;

(vii) Agreements providing for acquisition or disposition of the assets, businesses or a direct or indirect ownership interest in C/HCA;

(viii) Any lease under which C/HCA is either lessor or lessee;

(ix) Any contract, commitment or arrangement not made in the ordinary course of business of C/HCA, including without limitation, any powers-of-attorney giving any person authority to act on behalf of C/HCA;

(x) Any license, agreement, or arrangement, whether as licensor, licensee, or otherwise, with respect to any trade name, trademark, service mark, copyright, patent or trade secret;

(xi) Any contract or series of contracts, commitments or arrangement relating to the provision of goods or services for C/HCA by any person who is related to, or an affiliate of, C/HCA or any officer, director or stockholder of C/HCA, and any contract or series of contracts, commitments or arrangement relating to the provision of goods or services for C/HCA by any person the terms of which were not determined on an arms' length basis;

(xii) Any patient care or pharmacy vending contract not entered into in the ordinary course of business;

(xiii) Agreements with any Governmental Entity, including without limitation Medicare and Medicaid provider agreements and indigent care contracts; or

(xiv) Any contract with any managed care, preferred provider or other similar entity.

True and correct copies of all contracts, agreements, arrangements and similar instruments set forth on Schedule 3.11 have been provided to the UHS Group. Each contract, agreement, arrangement, plan, lease (including lease agreements with respect to the C/HCA Leased Properties under which C/HCA is either lessor or lessee) or similar instrument to which C/HCA is a party, whether or not listed on Schedule 3.11 (collectively, the "C/HCA Contracts"), is a valid and binding obligation of C/HCA and, to the best knowledge of C/HCA, the other parties thereto, enforceable in accordance with its terms (except as the enforceability thereof may be limited by any applicable bankruptcy, insolvency or other laws affecting creditors' rights generally or by general principles of equity, regardless of whether such enforceability is considered in equity or at law), and

is in full force and effect (except for any C/HCA Contracts which by their terms expire after the date hereof or are terminated after the date hereof in accordance with the terms thereof), and neither C/HCA nor, to the best of knowledge of C/HCA, any other party thereto has breached any material provision of, nor is in default in any material respect under the terms of (and, to the best knowledge of C/HCA, no condition exists which, with the passage of time, the giving of notice, or both (including consummation of the transactions contemplated hereby), would result in a material default under the terms of), any of the C/HCA Contracts.

(b) (1) No purchase contracts or commitments of C/HCA continue for a period of more than 12 months or are in quantities or amounts in excess of the normal, ordinary, usual and current requirements of its respective business or in excess of market prices generally available to purchasers of similar quantities; (ii) no C/HCA Contract requires C/HCA to provide services at a fixed price; (iii) C/HCA does not have outstanding any bid, contract, commitment or proposal either (x) continuing for a period of more than 12 months or (y) quoting prices which will not result in profits consistent with past experience; and (2) none of such C/HCA Contracts obligates C/HCA to perform services which C/HCA knows or has reason to believe are at a price which would result in a net loss on the provision of services, or are pursuant to terms or conditions it cannot reasonably expect to satisfy or fulfill in their entirety.

### 3.12 Employee and Labor Matters and Plans.

(a) Schedule 3.12 lists each of the following plans, contracts, policies and arrangements which is or, within six years prior to the date hereof, was sponsored, maintained or contributed to, by, or otherwise binding upon, C/HCA, for the benefit of any current or former employee, director or other personnel (including any

such plan, contract, policy or arrangement approved or adopted before, but effective on or after, the date of this Agreement): (i) any "employee benefit plan," as such term is defined in Section 3(3) of the Employee Retirement Income Security Act of 1974 ("ERISA"), whether or not subject to the provisions of ERISA, (ii) any personnel policy and (iii) any other employment, consulting, collective bargaining, stock option, stock bonus, stock purchase, phantom stock, incentive, bonus, deferred compensation, retirement, severance, vacation, dependent care, employee assistance, fringe benefit, medical, dental, sick leave, death benefit, golden parachute or other compensatory plan, contract, policy or arrangement which is not an employee benefit plan as defined in Section 3(3) of ERISA (each such plan, contract, policy and arrangement being herein referred to as an "Employee Plan").

(b) With respect to each Employee Plan, C/HCA has delivered to the UHS Group true and complete copies of (i) each contract, plan document, policy statement, summary plan description and other written material governing or describing the Employee Plan and/or any related funding arrangements (including without limitation any related trust agreement or insurance company contract) or, if there are no such written materials, a summary description of the Employee Plan and (ii), where applicable, (1) the last two annual reports (5500 series) filed with the Internal Revenue Service (the "IRS") or the Department of Labor, (2) the most recent balance sheet and financial statement, (3) the most recent actuarial report or valuation statement, (4) the most recent determination letter issued by the IRS, as well as any other determination letter, private letter ruling, opinion letter or prohibited transaction exemption issued by the IRS or the Department of Labor within the last six years and

any application therefor which is currently pending and (5) the last PBGC-1 filed with the United States Pension Benefit Guaranty Corporation (the "PBGC").

(c) Each Employee Plan has been maintained and administered in accordance with its terms and in substantial compliance with the provisions of applicable law, including without limitation applicable disclosure, reporting, funding and fiduciary requirements imposed by ERISA and/or the Code. All contributions, insurance premiums, benefits and other payments required to be made to or under each Employee Plan have been made timely and in accordance with the governing documents and in substantial compliance with applicable law. Except as set forth on Schedule 3.12, with respect to each Employee Plan, (i) no application, proceeding or other matter is pending before the IRS, the Department of Labor, the PBGC or any other Governmental Entity; (ii) no action, suit, proceeding or claim (other than routine claims for benefits) is pending or threatened; and (iii) to the best knowledge of C/HCA, no fact exists which could give rise to an action, suit, proceeding or claim which, if asserted, could result in a material liability or expense to C/HCA or the plan assets.

(d) With respect to each Employee Plan which is an "employee benefit plan" within the meaning of Section 3(3) of ERISA or which is a "plan" within the meaning of Section 4975(e) of the Code, to the best knowledge of C/HCA there has occurred no transaction which is prohibited by Section 406 of ERISA or which constitutes a "prohibited transaction" under Section 4975(c) of the Code and with respect to which a prohibited transaction exemption has not been granted and is not currently in effect.

(e) Schedule 3.12 identifies each funded Employee Plan which is an employee pension plan within the meaning of Section 3(2) of ERISA (other than

a multiemployer plan within the meaning of Section 3(37) of ERISA). With respect to each such Employee Plan, (i) the Employee Plan is a qualified plan under Section 401(a) or 403(a) of the Code, and its related trust is exempt from Federal income taxation under Section 501(a) of the Code, (ii) other than as set forth on Schedule 3.12, a favorable IRS determination letter is currently in effect and, since the date of the last determination letter, the Employee Plan has not been amended or, to the best knowledge of C/HCA operated in a manner which would adversely affect its qualified status and no event has occurred which has caused or could cause the loss of such status, (iii) there has been no termination or partial termination within the meaning of Section 411(d)(3) of the Code, (iv) with respect to each such Employee Plan which is covered by Section 412 of the Code, there has been no accumulated funding deficiency, whether or not waived, within the meaning of Section 302(a)(2) of ERISA or Section 412 of the Code, and there has been no failure to make a required installment by its due date under Section 412(m) of the Code and (v) with respect to each such Employee Plan which is covered by Title IV of ERISA, (1) no reportable event within the meaning of Section 4043(b) of ERISA and the regulations thereunder has occurred, (2) no notice of intent to terminate the plan has been provided to participants or filed with the PBGC under Section 4041 of ERISA, nor has the PBGC instituted or threatened to institute any proceeding under Section 4042 of ERISA to terminate the plan, (3) no liability has been incurred under Title IV of ERISA to the PBGC or otherwise (except for the payment of PBGC premiums) and (4) in the case of a defined benefit pension plan, the value of the plan assets exceeds the total present value of the plan's benefit liabilities on a plan termination basis based upon actuarial assumptions and asset valuation principles applied by the PBGC. C/HCA has not ceased operations at a

facility so as to become subject to the provisions of Section 4068(a) of ERISA, withdrawn as a substantial employer so as to become subject to the provisions of Section 4063 of ERISA or ceased making contributions to any Employee Plan which is a pension plan subject to Section 4064(a) of ERISA.

(f) Each trust which is intended to be exempt from Federal income taxation pursuant to Section 501(c)(9) of the Code has been identified as such on Schedule 3.12, and each such trust satisfies the requirements of that Section and is covered by a favorable IRS determination letter except as set forth on Schedule 3.12, and neither the trust nor any related plan has been amended or, to the best knowledge of C/HCA, operated since the date of the most recent determination letter in a manner which would adversely affect such exempt status.

(g) No Employee Plan listed on Schedule 3.12 is a multiemployer plan within the meaning of Section 3(37) of ERISA.

(h) C/HCA has complied in all material respects with the provisions of Section 4980(B) of the Code with respect to any Employee Plan or benefit arrangement which is a group health plan within the meaning of Section 5001(b)(1) of the Code. C/HCA does not maintain, contribute to, or is obligated under any plan, contract, policy or arrangement providing health or death benefits (whether or not insured) to current or former employees or other personnel beyond the termination of their employment or other services unless as required by the Consolidated Omnibus Reconciliation Act (COBRA). To the best knowledge of C/HCA, C/HCA has reserved the right to unilaterally terminate and/or amend each Employee Plan at any time.

(i) The consummation of the transactions contemplated by this Agreement will not (either alone or in conjunction with another event, such as a

termination of employment or other services) entitle any employee or other person to receive severance or other compensation which would not otherwise be payable absent the consummation of the transactions contemplated by this Agreement or cause the acceleration of the time of payment or vesting of any award or entitlement under any Employee Plan.

(j) Schedule 3.12 sets forth a complete and accurate list showing the names, titles, length of employment or service, the rate of compensation (and the portions thereof attributable to salary and bonuses, respectively), fringe benefits, and the amount of accrued bonuses, PTO, maternity leave and other leave of the current chief executive officers and chief financial officers of C/HCA and of all employees of or consultants to C/HCA that received, for the year ended December 31, 1994, or are expected to receive, during the year ending December 31, 1995, annual base salary or other compensation in excess of \$60,000. Except as set forth on Schedule 3.12, none of such personnel is a party or subject to any oral or written employment, bonus, pension, profit-sharing, deferred compensation, percentage compensation, employee benefit (including without limitation medical disability, life insurance and other welfare benefit plans), incentive, pension or retirement plans, fringe benefit or termination or severance agreements, plans or commitments. C/HCA is not in default with respect to any of the foregoing obligations. C/HCA is not in default with respect to any withholding or other employment taxes or payments with respect to accrued PTO or severance pay on behalf of any employee for which it is obligated on the date hereof and will maintain and continue to make all such necessary payments or adjustments arising through the Hospital Closing Date. To the best knowledge of C/HCA, no officer or employee listed on Schedule 3.12 has any plans to terminate their employment.



C/HCA has not instituted a "freeze" of, or delayed or deferred the grant of, any cost-of-living or other salary adjustments for any of its employees.

(k) Schedule 3.12 comprises a complete and correct list of (i) the names, titles, length of employment or service and current annual salary rates and all other compensation and fringe benefits of each of the employees, or consultants of C/HCA who are engaged in the conduct of the C/HCA Hospitals and who are not included on Schedule 3.12 as a result of disclosures required by (j) herein; and (ii) the amount of accrued bonuses, PTO, maternity leave and other leave for such personnel. There have been no audits of the equal employment opportunity practices of C/HCA and, to the best knowledge of C/HCA, no basis for such claim exists. There is no strike, dispute, slowdown or stoppage pending or threatened against or involving C/HCA and none has occurred since January 1, 1988. C/HCA has not received notice from any union or employees setting forth demands for representation, elections or for present or future changes in wages, terms of employment or working conditions.

(l) Schedule 3.12 sets forth all outstanding loans and other advances (other than travel advances in the ordinary course of business which do not exceed \$1,000 per individual) made by C/HCA to any of its officers, directors, employees, stockholders or consultants.

3.13 Insurance Policies. Schedule 3.13 contains a correct and complete description of all insurance policies of C/HCA (reflecting policy numbers, identity of insurer, amounts and coverage) covering C/HCA and its employees, agents and assets. Each such policy is now, and will be up to the Effective Time in full force and effect on an occurrence basis with no premium arrearage. All such policies are in full force and effect with responsible insurance carriers and, to the best knowledge of C/HCA, provide

adequate coverage to insure fully against risks to which C/HCA and its employees, businesses, properties and other assets may be exposed in the operation of its business. All retroactive premium adjustments under any worker's compensation policy of C/HCA have been recorded in C/HCA's financial statements in accordance with generally accepted accounting principles and are reflected in the C/HCA Financial Statements. No notice of cancellation or termination has been received with respect to any such policy. To the best knowledge of C/HCA, C/HCA has not failed to give any notice or present any claim thereunder in due and timely fashion. There are no pending claims against such insurance by C/HCA as to which the insurers have denied coverage or otherwise reserved rights. C/HCA has not been refused any insurance with respect to its assets or operations, nor has its coverage been limited, by any insurance carrier to which it has applied for any such insurance or with which it has carried insurance since the date it commenced operations.

3.14 Medicare, Medicaid and Other Health Care Programs.

(a) The medical staff of the C/HCA Hospitals consist substantially of the persons whose names and status are set forth on Schedule 3.14 hereto.

(b) C/HCA is certified for participation in the Medicare and Medicaid programs, and has a current and valid provider contract with such programs.

(c) C/HCA has timely filed or caused to be timely filed all cost reports and other reports of every kind whatsoever required by any Governmental Entity to be made by it with respect to the purchase of services by third-party purchasers, including but not limited to Medicare and Medicaid programs and other insurance carriers and, subject to normal adjustments (that shall not be material and

adverse) to such reports upon audit or review by such third parties, all such reports are complete and accurate in all material respects. C/HCA has paid or caused to be paid all refunds, discounts or adjustments which have become due pursuant to said reports and there is no further liability now due (whether or not disclosed in any report heretofore or hereafter made) for any such refund, discount or adjustment, and no interest or penalties accruing with respect thereto, except as may be disclosed in the C/HCA Financial Statements. C/HCA has delivered to the UHS Group true and correct copies of all of its Medicare and Medicaid Cost Reports submitted by C/HCA for the two most recent fiscal years.

3.15 Facility Surveys. True and complete copies of any and all licensure survey reports and any and all Medicare and/or Medicaid and JCAHO survey reports issued within the 24-month period preceding the execution of this Agreement with respect to the C/HCA Hospitals for which surveys are conducted by the appropriate state or Federal agencies and JCAHO having jurisdiction thereof have been furnished to the UHS Group, along with true and complete copies of any and all plans of correction which the agencies in question required to be submitted in response to said survey reports and all deficiencies reflected have been corrected at the expense of C/HCA.

3.16 Licenses. C/HCA and its officers, directors, partners and employees possess all governmental registrations, certificates of need, consents, qualifications, accreditations, licenses, permits, authorizations and approvals that are material to the ownership or operation of the health care facilities owned and operated by C/HCA except where the failure to possess the same would not have a material adverse effect on the ownership or operation of the C/HCA Assets, and the use of its properties as

presently conducted or used including, without limitation, all material licenses required under any Federal, state or local law relating to, public health and safety, or employee health and safety (collectively, "Licenses"). Schedule 3.16 contains a true and complete list of the Licenses, exclusive of any Licenses with respect to state or local sales, use or other Taxes (as defined in Section 3.17). All of the Licenses are in full force and effect and no action or claim is pending nor, to the best knowledge of C/HCA, is threatened to revoke or terminate any License or declare any License invalid in any material respect. Neither C/HCA nor any of its officers or directors or, to the best knowledge of C/HCA, employees is in default in any material respect under any of such Licenses and, to the best knowledge of C/HCA, other than as set forth on the C/HCA Hospitals survey reports, copies of which have been provided to the UHS Group, no event has occurred and no condition exists which, with the giving of notice, the passage of time, or both, would constitute a default thereunder, which default could reasonably be expected to have a material adverse effect on the business or operations of C/HCA.

### 3.17 Taxes.

(a) Except as specifically set forth in Schedule 3.17, C/HCA has filed on a timely basis (taking into account any extensions received from the relevant taxing authorities) all returns and reports of Taxes (which for the purposes of this Agreement shall include all U.S. federal, state, local and foreign income, profits, franchise, unincorporated business, capital, general corporate, sales, use, occupation, property, excise and any and all other taxes) relating to the C/HCA Assets or the C/HCA Hospitals that are or were required to be filed with the appropriate taxing authorities in all jurisdictions in which such returns and reports are or were required

to be filed, and all such returns and reports are true, correct and complete in all material respects.

(b) All Taxes relating to the C/HCA Assets or the C/HCA Hospitals that C/HCA is or was required by law to withhold, to deposit or to collect have been duly withheld, deposited or collected and, to the extent required, have been paid to the relevant taxing authority or have been accrued and reflected in the accounts of the C/HCA Hospitals.

(c) C/HCA has no intangible asset on its books in the nature of good will or going concern for which they have a tax basis.

3.18 Tax Returns Through Hospital Closing Date. C/HCA shall prepare and file on a timely basis all reports and returns of Taxes relating to the C/HCA Assets or the C/HCA Hospitals with respect to all periods through and including the Hospital Closing Date and shall pay or cause to be paid when due all Taxes relating to the C/HCA Assets or the C/HCA Hospitals for such periods, including any interest, additions to tax or penalties thereon together with interest on such additions to tax or penalties except as otherwise assumed by the UHS Group pursuant to this Agreement. C/HCA shall be entitled to receive any tax refund of Taxes attributable to the C/HCA Assets or conduct of the C/HCA Hospitals in respect of any period prior to and through the Hospital Closing Date to the effect paid by C/HCA.

3.19 FIRPTA Affidavits. At the Hospital Closing, C/HCA shall execute and deliver to the UHS Group affidavits complying in all respects with Section 1445(b)(2) of the Code and the UHS Group agrees that, except as otherwise provided in Section 1445(b)(7) of the Code and the Treasury Regulations promulgated pursuant thereto, upon the execution and delivery of such affidavits to the UHS Group, no

deduction shall be made or claimed against the Cash Deposit by reason of the requirements of Section 1445 of the Code.

3.20 No Illegal or Improper Transactions. C/HCA has not, nor have any of its directors, officers, affiliates, employees, directly or indirectly used funds or other assets of C/HCA, or made any promise or undertaking in such regard, for (a) illegal contributions, gifts, entertainment or other expenses relating to political activity; (b) illegal payments to or for the benefit of governmental officials or employees, whether domestic or foreign; (c) illegal payments to or for the benefit of any person, firm, corporation or other entity, or any director, officer, employee, agent or representative thereof; or (d) the establishment or maintenance of a secret or unrecorded fund; and there have been no false or fictitious entries made in the books or records of C/HCA.

3.21 No Misleading Statements. This Agreement, the information and schedules referred to herein and the information that has been furnished to the UHS Group and the UHS Affiliates in connection with the transactions contemplated hereby do not include any untrue statement of a material fact and do not omit to state any material fact necessary to make the statements contained herein or therein, in light of the circumstances under which they were made, not misleading.

3.22 Special Funds. None of the C/HCA Assets are subject to, and C/HCA shall indemnify and hold the UHS Group harmless from and against, any liability in respect of amounts received by C/HCA or others for the purchase or improvement of the C/HCA Assets or any part thereof under restricted or conditioned grants or donations, including, without limitation, monies received under the Public Health Service Act, 42 U.S.C. Section 291 et seq. or the provisions of the Higher Education Facilities Act of 1965, 20 U.S.C. Section 1132(a), et seq. or under any comparable state laws.

3.23 Medical Staff Matters. C/HCA has delivered to the UHS Group true, correct, and complete copies of the bylaws and rules and regulations of the medical staffs of the C/HCA Hospitals. With regard to the medical staffs of the C/HCA Hospitals and except as set forth on Schedule 3.23 hereto, there are no pending or, to the best of C/HCA's knowledge, threatened disputes with applicants, staff members or health professional affiliates and all appeal periods in respect of any medical staff member or applicant against whom an adverse action has been taken have expired.

3.24 No Broker. C/HCA represents and warrants that it has not dealt with any broker or finder in connection with any of the transactions contemplated by this Agreement.

4. Representations and Warranties of UHS, UHS Sub, the UHS Affiliates and UHS of Delaware. In order to induce C/HCA to enter into and perform this Agreement, UHS, the UHS Sub, the UHS Affiliates and UHS of Delaware, jointly and severally, represent, warrant and agree as follows:

4.1 Organization, Capitalization, Authorization, Etc.

4.1.1 Organization. Each of UHS, the UHS Sub, the UHS Affiliates and UHS of Delaware is a corporation duly organized, validly existing and in good standing under the laws of its respective state of incorporation, with all the requisite power and authority to execute, deliver and perform this Agreement and to hold the properties, rights and assets and to carry on the businesses now conducted by it. Each of UHS, the UHS Sub, the UHS Affiliates and UHS of Delaware is qualified to do business as a foreign corporation in each jurisdiction in which the nature of the business conducted by it or its ownership or leasing of property make such qualification necessary.

4.1.2 Governing Documents. Copies of the Articles of Incorporation and By-Laws of UHS, the UHS Sub, the UHS Affiliates and UHS of Delaware have heretofore been delivered to C/HCA and are true, complete and correct.

4.2 Ownership of Assets. Except as set forth in Schedule 4.2 hereto, the UHS Affiliates are and at the Hospital Closing, UHS of Delaware will be the legal and beneficial owner of the UHS Assets described in Section 1.2 hereof, free and clear of any Liens other than Permitted Encumbrances, and the UHS Affiliates and UHS of Delaware have full right, power and authority to sell, transfer, assign, convey and deliver all of the UHS Assets to be transferred by each of them, hereunder and delivery thereof will convey to C/HCA good and marketable title to said UHS Assets, free and clear of any Liens other than Liens created by C/HCA and Permitted Encumbrances. No removal of equipment (as specified in Section 1.2(c) hereof) from the UHS Hospitals has occurred since November 1, 1994.

4.3 Authority and No Conflict. (a) UHS, UHS Sub, the UHS Affiliates and UHS of Delaware have full right, power and authority to execute, deliver and carry out the terms of this Agreement and all documents and agreements necessary to give effect to the provisions of this Agreement, and this Agreement has been duly authorized, executed and delivered by UHS, UHS Sub, the UHS Affiliates and UHS of Delaware. Except as described on Schedule 4.3 the execution and delivery of this Agreement by UHS, UHS Sub, the UHS Affiliates and UHS of Delaware does not and consummation of the transactions contemplated hereby will not (a) conflict with, or result in any violation of or default or loss of any benefit under, any provision of the Articles of Incorporation or By-laws of UHS, UHS Sub, UHS Affiliates or UHS of Delaware; (b) conflict with, or result in any violation of or default or loss of any



material benefit under, any permit, concession, grant, franchise, law, rule or regulation, or any judgment, decree or order of any court or other governmental agency or instrumentality to which UHS, UHS Sub, the UHS Affiliates or UHS of Delaware is a party or to which any of their respective properties are subject; (c) conflict with, or result in a breach or violation of or default or loss of any material benefit under, or accelerate the performance required by, the terms of any agreement, contract, indenture or other instrument to which UHS, UHS Sub, the UHS Affiliates or UHS of Delaware is a party or to which any of their respective properties is subject, or constitute a default or loss of any right thereunder or an event which, with the lapse of time or notice or both, might result in a default or loss of any right thereunder or the creation of any Lien upon any of the assets or properties of UHS, UHS Sub, the UHS Affiliates or UHS of Delaware; or (d) result in any suspension, revocation, impairment, forfeiture or nonrenewal of (i) any License relating to the ownership and operation of health care facilities which is material to the operation of the UHS Assets or (ii) any other material License. All corporate action prerequisite to the execution of this Agreement and the consummation of the transactions contemplated by this Agreement has been taken by UHS, UHS Sub, the UHS Affiliates and UHS of Delaware. This is a valid and binding agreement of UHS, UHS Sub, the UHS Affiliates and UHS of Delaware enforceable in accordance with its terms except as enforceability may be restricted, limited or delayed by applicable bankruptcy or other laws affecting creditors' rights generally and except as enforceability may be subject to general principles of equity.

(b) The execution, delivery and performance by UHS, UHS Sub, the UHS Affiliates and UHS of Delaware of this Agreement, and the performance of the transactions contemplated by this Agreement, do not require the authorization, consent,

approval, certification, license or order of, or any filing with, except as set forth on Schedule 4.3 hereof, any court or governmental agency of such a nature that the failure to obtain the same would have a material adverse effect on the UHS Assets, except for compliance with the HSR Act (as hereinafter defined) the FTC Consent Order, and except for such governmental authorizations, consents, approvals, certifications, licenses and orders that customarily accompany the transfer of health care facilities such as the UHS Hospitals.

4.4 Financial Statements, Books and Records, and Change in Condition.

4.4.1 Financial Statements Provided. The UHS Affiliates have delivered to C/HCA true, correct and complete copies of the unaudited balance sheets of the UHS Affiliates as of September 30, 1994 (collectively, the "UHS September Balance Sheet") and the related statements of operations, and statements of retained earnings and cash flows for the 9 months then ended (collectively, the "UHS September Financial Statements"). The UHS September Financial Statements have been prepared from the books and records of the UHS Affiliates and have been prepared in accordance with generally accepted accounting principles consistently followed throughout the period covered thereby (except as set forth on Schedule 4.4.1), and the balance sheet included therein presents fairly as of its date the financial condition of the UHS Affiliates. The statements of operations, and statements of retained earnings and cash flows included in the UHS September Financial Statements present fairly the results of operations, retained earnings and cash flows of the UHS Affiliates for the periods indicated.

4.4.2 Inventories. All inventories of the UHS Affiliates set forth on the UHS September Balance Sheet, and all inventories acquired subsequent to September 30, 1994 (the "Balance Sheet Date") are valued at the lower of cost (applied

on a first-in-first-out basis) or market in accordance with generally accepted accounting principles. All inventories included in the UHS Assets, consist, and at the Hospital Closing will consist, of a quality and quantity usable and saleable in the ordinary course of business without discount or reduction, except for items of obsolete materials, all of which will be written down at the Hospital Closing to realizable market value. The present quantities of inventory of the UHS Hospitals are, and at the Hospital Closing will be, reasonable and warranted in the present and then circumstances of the UHS Hospitals.

4.4.3 Events Subsequent to the Balance Sheet Date. Since the Balance Sheet Date there has been no material adverse change in the assets or liabilities, or in the business or condition, financial or otherwise, or in the results of operations or prospects, of the UHS Affiliates, whether as a result of any legislative or regulatory change, revocation of any License or right to do business, fire, explosion, accident, casualty, labor trouble, flood, drought, riot, storm, condemnation or act of God or otherwise, and, to the best knowledge of the UHS Affiliates, no fact or condition exists or is contemplated or threatened which could reasonably be anticipated to cause such a change in the future.

Except as set forth on Schedule 4.4.3, except for seasonality changes, since the Balance Sheet Date, and except with respect to the accounts receivable financing program of UHS (no receivables of which are included in the UHS Assets), no UHS Affiliate has (a) borrowed any amount or incurred or become subject to any liability (absolute, accrued or contingent), except current liabilities incurred and liabilities under contracts entered into, all of which were in the ordinary course of business; (b) discharged or satisfied any Lien or incurred or paid any obligation or liability (absolute,

accrued or contingent) other than current liabilities shown on the most recent balance sheet included in the UHS September Financial Statements and current liabilities incurred since the Balance Sheet Date in the ordinary course of business; (c) declared or made any payment or distribution (whether in cash, securities, other property or any combination thereof) on or in respect of the capital stock of the UHS Affiliates; (d) mortgaged, pledged or subjected to Lien any of its assets, tangible or intangible (including the UHS Assets), other than Liens of current real property taxes not yet due and payable; (e) sold, assigned or transferred any of its tangible assets except in the ordinary course of business, or canceled any debt or claim; (f) sold, assigned, transferred or granted any license with respect to any trademark, trade name, service mark, copyright, trade secret or other intangible asset; (g) suffered any loss of property or waived any right of substantial value whether or not in the ordinary course of business; (h) suffered any material adverse change in its relations with, or any loss or threatened loss of, any of its material suppliers, managed care contracts, physician relationships or Medicare or Medicaid contracts; (i)(1) entered into any employment, deferred compensation or other similar agreement (or any amendment to any such existing agreement) or arrangement with any of its directors, officers or employees, (2) increased any benefits payable under any existing severance or termination pay policies or employment agreements, or (3) increased the compensation, bonus or other benefits payable to any of its directors, officers or, other than in the ordinary course of business and consistent with past practice, employees; (j) made any material change in the manner of its business or operations, including without limitation any change in the manner in which the UHS Affiliates extend credit to patients or otherwise deals with patients; (k) made any material change in any method of accounting or accounting

practice, except for any such changes required by reason of a concurrent change in generally accepted accounting principles; (l) written off as uncollectible any accounts or notes receivable in excess of reserves; (m) been the subject of any labor dispute or threat thereof; (n) entered into any transaction except in the ordinary course of business or as otherwise contemplated hereby; or (o) entered into any commitment (contingent or otherwise) to do any of the foregoing.

4.5 Absence of Undisclosed Liabilities. No UHS Affiliate has any direct debt, liability or obligation of any nature, whether accrued, absolute, contingent or otherwise, and whether due or to become due, which is not reflected or reserved against in the UHS September Financial Statements except for (a) those which are not required by generally accepted accounting principles to be so reflected, and (b) those which were incurred in the ordinary course of business and are usual and normal in amount both individually and in the aggregate, and (c) any debt, liability or obligation otherwise disclosed in this Agreement or the Schedules hereto.

4.6 Real Property.

(a) Schedule 4.6 hereto identifies all interests in real property including land and improvements held by the UHS Affiliates as of the date hereof, together with the nature of such interest. To the extent that any such interest is shared, Schedule 4.6 also sets forth the nature and proportion of the sharing arrangement. Each of the properties on Schedule 4.6 is identified either as a property in which the UHS Affiliate holds all or a portion of the fee title (individually, an "UHS Owned Property" and collectively, the "UHS Owned Properties"), or all or a portion of a leasehold estate in the property (individually, an "UHS Leased Property" and

collectively, the "UHS Leased Properties"). The UHS Owned Properties and the UHS Leased Properties are collectively referred to herein as "UHS Real Property."

(b) Except as set forth on Schedule 4.6, immediately prior to the transfer to UHS of Delaware, the UHS Affiliates will have, and at the Hospital Closing, UHS of Delaware will have good, valid and marketable title to each UHS Real Property free and clear of all Liens whatsoever except for Permitted Encumbrances. The UHS Affiliates' occupation, possession and use of the UHS Leased Properties has not been disturbed and no claim has been asserted or, to the best knowledge of the UHS Affiliates, threatened, adverse to the respective rights of the UHS Affiliates to the continued occupation, possession and use of the UHS Leased Properties, as currently utilized and as presently contemplated to be utilized.

(c) No portion of the UHS Real Property has suffered any material damage by fire or other casualty which heretofore has not been completely repaired and restored to its original condition. No person other than the UHS Affiliates owns any UHS Improvements (as defined below) necessary to the operation of the business of the UHS Affiliates, except for the contemplated transfer of the UHS Assets to UHS of Delaware immediately prior to the Hospital Closing and except for leased UHS Improvements both of which are disclosed on Schedule 4.6.

(d) The use and operation of the UHS Real Property and all buildings, structures, improvements, fixtures, facilities, equipment, all components of all buildings, structures and other improvements included within the UHS Real Property including, but not limited to, the roofs and structural elements thereof and the heating, ventilation, air conditioning, plumbing, electrical, mechanical, sewer, waste water, storm water, paving and parking equipment, systems and facilities included

therein (collectively, the "UHS Improvements") by the relevant UHS Affiliate is lawful and in full compliance with all Use Laws of every Governmental Entity having jurisdiction over any such UHS Real Property and UHS Improvements. The construction and use of the UHS Improvements on each parcel of UHS Real Property is lawful and in full compliance with all use statutes, rules, regulations, ordinances, orders, writs, injunctions, judgments, decrees, awards and restrictions, including without limitation, all Construction Laws (collectively with the Use Laws, "Real Property Laws") of every Governmental Entity having jurisdiction over any such UHS Real Property and UHS Improvements. Effective as of the Hospital Closing, C/HCA shall have the right under all Real Property Laws to continue the use and operation of the UHS Real Property and UHS Improvements for their current uses in the operation of the business of the UHS Affiliates as presently operated. To the best of the UHS Affiliates' knowledge for the past six years, no UHS Affiliate has received any notice of any violation of or investigation regarding any Real Property Laws. None of the UHS Real Property or the UHS Improvements, the appurtenances thereto or the equipment therein or the operation or maintenance thereof violates any restrictive covenant or, except as shown on the survey, encroaches on any property owned by others or any easement, right of way or other encumbrance or restriction affecting the UHS Real Property and/or UHS Improvements in any manner which would, individually or in the aggregate, interfere in any material respect with the use, occupancy or operation thereof as currently used, occupied and operated. To the best knowledge of the UHS Affiliates and except as shown on the survey, no building or structure of any third party encroaches upon the UHS Real Property or any easement or right of way benefitting the UHS Real Property. The UHS Real Property and its continued use, occupancy and

operation as currently used, occupied and operated does not constitute a nonconforming use under any Real Property Law. The UHS Affiliates have provided C/HCA with copies of the most recent title reports in their possession relating to the UHS Real Property and all title insurance policies currently in effect with respect to such UHS Real Property.

(e) No UHS Affiliate has received notice of, nor do they otherwise have knowledge of, any condemnation, fire, health, safety, building, zoning or other land use regulatory proceedings, either instituted or planned to be instituted, which would have a material adverse effect on the use and operation of any portion of the UHS Real Property and/or UHS Improvements for their respective intended purposes or the value of any material portion of the UHS Real Property or UHS Improvements, nor has any UHS Affiliate received notice of any special improvements, liens, assessments or assessment proceedings affecting any of the UHS Real Property or UHS Improvements, nor has any UHS Affiliate received any written notice of violation or claimed violation of any Real Property Law.

(f) All water, sewer, gas, electric, telephone and drainage facilities, and all other utilities required by any applicable law or by the current use and operation of the UHS Real Property and UHS Improvements are installed to the property lines of the UHS Real Property, are connected pursuant to valid permits to municipal or public utility services or proper drainage facilities, are fully operable and are adequate to service the UHS Real Property and UHS Improvements as currently used in the operation of the business of the UHS Hospitals and to permit full compliance with the requirements of all Real Property Laws. The UHS Affiliates have no knowledge or notice of any fact or condition which could result in the termination or



reduction of the current access from the UHS Real Property to existing roads or to sewer or other utility services presently serving the UHS Real Property.

(g) All licenses, permits, certificates (including without limitation certificates of occupancy), easements and rights of way, including proof of dedication, required from all Governmental Entities having jurisdiction over the UHS Real Property for the use and operation of the UHS Real Property and UHS Improvements as currently used in the operation of the business of the UHS Hospitals and to ensure vehicular and pedestrian ingress to and egress from the UHS Real Property have been obtained, except where the failure to obtain any such license, permit, certificate, easement or right of way would not have a material adverse effect on the value or use of the UHS Real Property by the UHS Affiliates or C/HCA. The transactions contemplated hereby will not require the issuance of any new or amended license, permit or certificate.

(h) None of the UHS Real Property is located in an area identified as a "flood hazard area" by the United States Department of Housing and Urban Development except as shown in the survey attached as part of Schedule 4.6 hereto which, to the best knowledge of the UHS Affiliates is accurate and complete in all respects. The UHS Affiliates have not granted any easements or entered into an arrangement or agreement since the date of such survey which would cause any change to be made in such survey if such survey was performed as of the date hereof.

(i) The transfer of the UHS Real Property to UHS of Delaware immediately prior to the Hospital Closing will not result in the creation of any Lien, encumbrance or other defect in title with respect to such UHS Real Property or in any

way interfere with the right of C/HCA to own, possess, occupy and use the UHS Real Property following the Hospital Closing.

4.7 Property to Operate UHS Hospitals. The UHS Assets constitute, in the aggregate, all the assets and property necessary for the conduct of the UHS Hospitals as currently conducted.

4.8 Trade Names, Trademarks, Copyrights, Etc. Schedule 4.8 contains a schedule of all trade names, trademarks, service marks, copyrights, patents or applications for patents, and trade secrets used by the UHS Affiliates in the operation of its business and of the UHS Hospitals or in which they have any rights (including licenses), together with a brief description of each. To the best of the UHS Affiliates' knowledge, no UHS Affiliate has infringed, or is now infringing, any trade name, trademark, service mark, copyright, patent or trade secret belonging to a third party and no UHS Affiliate has received any notice of infringement upon or conflict with the asserted rights of others. Except as set forth on Schedule 4.8 hereto, none of such names, marks, copyrights or patents, however, are registered with the United States Patent and Trademark Office or the United States Copyright Office. To the knowledge of the UHS Affiliates there are no trade names, trademarks, service marks, copyrights, patents or applications for patents and trade secrets other than those listed on Schedule 4.8 which are necessary for the conduct of the business of the UHS Affiliates as now being conducted, the loss of which could materially and adversely affect the prospects, operations or condition, financial or otherwise, of the UHS Affiliates. No director, officer, stockholder, or, to the best knowledge of the UHS Affiliates, employee, of any UHS Affiliate or the UHS Hospitals or any predecessor has any interest in any of the foregoing rights.

4.9 Litigation. Except as set forth on Schedule 4.9 hereto, there is no action, suit, arbitration, proceeding or investigation pending or, to the best knowledge of the UHS Affiliates, threatened against either of the UHS Affiliates or affecting the UHS Assets by or before any Governmental Entity, or any basis in fact therefor known to any UHS Affiliate, against either of the UHS Affiliates or involving the UHS Assets, whether at law or in equity.

4.10 Compliance with Laws.

(a) To the best of UHS' and the UHS Affiliates' knowledge, each UHS Affiliate is in compliance with all Laws, except for violations that individually or in the aggregate would not and, insofar as may reasonably be foreseen, in the future will not, have a material adverse effect on the business or operations of the UHS Hospitals. No UHS Affiliate nor, to the best knowledge of the UHS Affiliates, any director, officer, consultant or employee of any UHS Affiliate, is in default with respect to any order, writ, injunction or decree, known to, or served upon, any UHS Affiliate, of any Governmental Entity. To the best knowledge of the UHS Affiliates, there is no existing Law, other than Laws of general applicability to healthcare providers, which would prohibit or materially restrict any UHS Affiliate from, or otherwise materially adversely affect any UHS Affiliate in, conducting its business in any jurisdiction in which it is now conducting business or in which it currently proposes to conduct business.

(b) No UHS Affiliate has received any notice of any claim, requirement or demand of any Governmental Entity having or claiming any licensing, certifying, supervising, evaluating or accrediting authority over the UHS Affiliates or

their business to rework or redesign the UHS Hospitals, medical staff or professional services, procedures or practices in any material respect or to provide additional furniture, fixtures, equipment or inventory so as to make such UHS Hospitals conform to or comply with applicable law.

(c) To the best of UHS' and the UHS Affiliates' knowledge, the UHS Affiliates and their respective officers and directors, and those physicians who are under contract or have otherwise entered into a written agreement with UHS or the UHS Affiliates (and then, only with respect to activities of such physicians under and with respect to such contracts or agreements), have not engaged in any activities which are prohibited under any Laws, or the regulations promulgated pursuant to such Laws or related state or local laws, statutes or regulations.

#### 4.11 Contracts.

(a) The UHS Affiliates have no existing contract, obligation or commitment (written or oral) of any nature, including without limitation the following, except as set forth on Schedule 4.11:

(i) Employment, bonus, severance or consulting agreements, retirement, stock bonus, stock option, or similar plans;

(ii) Loan or other agreements, notes, indentures, or instruments relating to or evidencing indebtedness for borrowed money or mortgaging, pledging or granting or creating a lien or security interest or other encumbrance on any of the assets of any UHS Affiliate or any agreement or instrument evidencing any guaranty by any UHS Affiliate of payment or performance by any other person;

(iii) Agreements with any labor union or collective bargaining organization or other labor agreements;

(iv) Any contract or series of contracts with the same person for the furnishing or purchase of equipment, goods or services;

(v) Any joint venture contract or arrangement or other agreement involving a sharing of profits or expenses to which any UHS Affiliate is a party or by which any of them is bound;

(vi) Agreements which would, after the Hospital Closing Date, limit the freedom of C/HCA to compete in any line of business or in any geographic area or with any person;

(vii) Agreements providing for acquisition or disposition of the assets, businesses or a direct or indirect ownership interest in the UHS Affiliates;

(viii) Any lease under which the UHS Affiliates are either lessor or lessee;

(ix) Any contract, commitment or arrangement not made in the ordinary course of business of any UHS Affiliate, including without limitation, any powers-of-attorney giving any person authority to act on behalf of any UHS Affiliate;

(x) Any license, agreement, or arrangement, whether as licensor, licensee, or otherwise, with respect to any trade name, trademark, service mark, copyright, patent or trade secret;

(xi) Any contract or series of contracts, commitments or arrangement relating to the provision of goods or services for any UHS Affiliate by any person who is related to, or an affiliate of, any UHS Affiliate or any officer, director or stockholder of any UHS Affiliate, and any contract or series of contracts, commitments or arrangement relating to the provision of goods or services for any UHS Affiliate by any person the terms of which were not determined on an arms' length basis;

(xii) Any patient care or pharmacy vending contract not entered into in the ordinary course of business;

(xiii) Agreements with any Governmental Entity, including without limitation Medicare and Medicaid provider agreements and indigent care contracts; or

(xiv) Any contract with any managed care, preferred provider or other similar entity.

True and correct copies of all contracts, agreements, arrangements and similar instruments set forth on Schedule 4.11 have been provided to C/HCA. Each contract, agreement, arrangement, plan, lease (including lease agreements with respect to the UHS Leased Properties under which any UHS Affiliate is either lessor or lessee) or similar instrument to which any UHS Affiliate is a party, whether or not listed on Schedule 4.11 (collectively, the "UHS Contracts"), is a valid and binding obligation of the UHS Affiliate party thereto and, to the best knowledge of the UHS Affiliates, the other parties thereto, enforceable in accordance with its terms (except as the enforceability thereof may be limited by any applicable bankruptcy, insolvency or other

laws affecting creditors' rights generally or by general principles of equity, regardless of whether such enforceability is considered in equity or at law), and is in full force and effect (except for any UHS Contracts which by their terms expire after the date hereof or are terminated after the date hereof in accordance with the terms thereof), and neither any UHS Affiliate nor, to the best of knowledge of the UHS Affiliates, any other party thereto has breached any material provision of, nor is in default in any material respect under the terms of (and, to the best knowledge of the UHS Affiliates, no condition exists which, with the passage of time, the giving of notice, or both (including consummation of the transactions contemplated hereby), would result in a material default under the terms of), any of the UHS Contracts.

(b) (1) No purchase contracts or commitments of any UHS Affiliate continue for a period of more than 12 months or are in quantities or amounts in excess of the normal, ordinary, usual and current requirements of its respective business or in excess of market prices generally available to purchasers of similar quantities; (ii) no UHS Contract requires any UHS Affiliate to provide services at a fixed price; (iii) no UHS Affiliate has outstanding any bid, contract, commitment or proposal either (x) continuing for a period of more than 12 months or (y) quoting prices which will not result in profits consistent with past experience; and (2) none of such UHS Contracts obligates any UHS Affiliate to perform services which any UHS Affiliate knows or has reason to believe are at a price which would result in a net loss on the provision of services, or are pursuant to terms or conditions it cannot reasonably expect to satisfy or fulfill in their entirety.

## 4.12 Employee and Labor Matters and Plans.

(a) Schedule 4.12 lists each of the following plans, contracts, policies and arrangements which is or, within six years prior to the date hereof, was sponsored, maintained or contributed to by, or otherwise binding upon, any UHS Affiliate for the benefit of any current or former employee, director or other personnel (including any such plan, contract, policy or arrangement approved or adopted before, but effective on or after, the date of this Agreement): (i) any "employee benefit plan," as such term is defined in Section 3(3) of ERISA, whether or not subject to the provisions of ERISA, (ii) any personnel policy and (iii) any Employee Plan.

(b) With respect to each Employee Plan, the UHS Affiliates have delivered to C/HCA true and complete copies of (i) each contract, plan document, policy statement, summary plan description and other written material governing or describing the Employee Plan and/or any related funding arrangements (including without limitation any related trust agreement or insurance company contract) or, if there are no such written materials, a summary description of the Employee Plan and (ii), where applicable, (1) the last two annual reports (5500 series) filed with the IRS or the Department of Labor, (2) the most recent balance sheet and financial statement, (3) the most recent actuarial report or valuation statement, (4) the most recent determination letter issued by the IRS, as well as any other determination letter, private letter ruling, opinion letter or prohibited transaction exemption issued by the IRS or the Department of Labor within the last six years and any application therefor which is currently pending and (5) the last PBGC-1 filed with the PBGC.



(c) Each Employee Plan has been maintained and administered in accordance with its terms and in substantial compliance with the provisions of applicable law, including without limitation applicable disclosure, reporting, funding and fiduciary requirements imposed by ERISA and/or the Code. All contributions, insurance premiums, benefits and other payments required to be made to or under each Employee Plan have been made timely and in accordance with the governing documents and in substantial compliance with applicable law. Except as set forth on Schedule 4.12, with respect to each Employee Plan, (i) no application, proceeding or other matter is pending before the IRS, the Department of Labor, the PBGC or any other Governmental Entity; (ii) no action, suit, proceeding or claim (other than routine claims for benefits) is pending or threatened; and (iii) to the best knowledge of the UHS Affiliates, no fact exists which could give rise to an action, suit, proceeding or claim which, if asserted, could result in a material liability or expense to any UHS Affiliate or the plan assets.

(d) With respect to each Employee Plan which is an "employee benefit plan" within the meaning of Section 3(3) of ERISA or which is a "plan" within the meaning of Section 4975(e) of the Code, to the best knowledge of the UHS Affiliates there has occurred no transaction which is prohibited by Section 406 of ERISA or which constitutes a "prohibited transaction" under Section 4975(c) of the Code and with respect to which a prohibited transaction exemption has not been granted and is not currently in effect.

(e) Schedule 4.12 identifies each funded Employee Plan which is an employee pension plan within the meaning of Section 3(2) of ERISA (other than

a multiemployer plan within the meaning of Section 3(37) of ERISA). With respect to each such Employee Plan, (i) the Employee Plan is a qualified plan under Section 401(a) or 403(a) of the Code, and its related trust is exempt from Federal income taxation under Section 501(a) of the Code, (ii) a favorable IRS determination letter is currently in effect and, since the date of the last determination letter, the Employee Plan has not been amended or, to the best knowledge of the UHS Affiliates operated in a manner which would adversely affect its qualified status and no event has occurred which has caused or could cause the loss of such status, (iii) there has been no termination or partial termination within the meaning of Section 411(d)(3) of the Code, (iv) with respect to each such Employee Plan which is covered by Section 412 of the Code, there has been no accumulated funding deficiency, whether or not waived, within the meaning of Section 302(a)(2) of ERISA or Section 412 of the Code, and there has been no failure to make a required installment by its due date under Section 412(m) of the Code and (v) with respect to each such Employee Plan which is covered by Title IV of ERISA, (1) no reportable event within the meaning of Section 4043(b) of ERISA and the regulations thereunder has occurred, (2) no notice of intent to terminate the plan has been provided to participants or filed with the PBGC under Section 4041 of ERISA, nor has the PBGC instituted or threatened to institute any proceeding under Section 4042 of ERISA to terminate the plan, (3) no liability has been incurred under Title IV of ERISA to the PBGC or otherwise (except for the payment of PBGC premiums) and (4) in the case of a defined benefit pension plan, the value of the plan assets exceeds the total present value of the plan's benefit liabilities on a plan termination basis based upon actuarial assumptions and asset valuation principles applied by the PBGC. No

UHS Affiliate has ceased operations at a facility so as to become subject to the provisions of Section 4068(a) of ERISA, withdrawn as a substantial employer so as to become subject to the provisions of Section 4063 of ERISA or ceased making contributions to any Employee Plan which is a pension plan subject to Section 4064(a) of ERISA.

(f) Each trust which is intended to be exempt from Federal income taxation pursuant to Section 501(c)(9) of the Code has been identified as such on Schedule 4.12, and each such trust satisfies the requirements of that Section and is covered by a favorable IRS determination letter except as set forth on Schedule 4.12, and neither the trust nor any related plan has been amended or, to the best knowledge of the UHS Affiliates, operated since the date of the most recent determination letter in a manner which would adversely affect such exempt status.

(g) No Employee Plan listed on Schedule 4.12 is a multiemployer plan within the meaning of Section 3(37) of ERISA.

(h) The UHS Affiliates have complied in all material respects with the provisions of Section 4980(B) of the Code with respect to any Employee Plan or benefit arrangement which is a group health plan within the meaning of Section 5001(b)(1) of the Code. No UHS Affiliate maintains, contributes to, or is obligated under any plan, contract, policy or arrangement providing health or death benefits (whether or not insured) to current or former employees or other personnel beyond the termination of their employment or other services unless as required by COBRA. To the best knowledge of the UHS Affiliates, the UHS Affiliates have reserved the right to unilaterally terminate and/or amend each Employee Plan at any time.

(i) The consummation of the transactions contemplated by this Agreement will not (either alone or in conjunction with another event, such as a termination of employment or other services) entitle any employee or other person to receive severance or other compensation which would not otherwise be payable absent the consummation of the transactions contemplated by this Agreement or cause the acceleration of the time of payment or vesting of any award or entitlement under any Employee Plan.

(j) Schedule 4.12 sets forth a complete and accurate list showing the names, titles, length of employment or service, the rate of compensation (and the portions thereof attributable to salary and bonuses, respectively), fringe benefits, and the amount of accrued bonuses, vacation, sick leave, maternity leave and other leave of the chief executive officers and chief financial officers of each UHS Affiliate and of all employees of or consultants to each UHS Affiliate that received, for the year ended December 31, 1994, or are expected to receive, during the year ending December 31, 1995, annual base salary or other compensation in excess of \$60,000. Except as set forth on Schedule 4.12, none of such personnel is a party or subject to any oral or written employment, bonus, pension, profit-sharing, deferred compensation, percentage compensation, employee benefit (including without limitation medical disability, life insurance and other welfare benefit plans), incentive, pension or retirement plans, fringe benefit or termination or severance agreements, plans or commitments. The UHS Affiliates are not in default with respect to any of the foregoing obligations. No UHS Affiliate is in default with respect to any withholding or other employment taxes or payments with respect to accrued vacation, sick pay or severance pay on behalf of

any employee for which it is obligated on the date hereof and will maintain and continue to make all such necessary payments or adjustments arising through the Hospital Closing Date. To the best knowledge of the UHS Affiliates, no officer or employee listed on Schedule 4.12 has any plans to terminate their employment. Neither UHS Affiliate has instituted a "freeze" of, or delayed or deferred the grant of, any cost-of-living or other salary adjustments for any of its employees.

(k) Schedule 4.12 comprises a complete and correct list of (i) the names, titles, length of employment or service and current annual salary rates and all other compensation and fringe benefits of each of the employees, officers, directors or consultants of the UHS Affiliates who is engaged in the conduct of the UHS Hospitals and who are not included on Schedule 4.12 as a result of disclosures required by (j) herein; and (ii) the amount of accrued bonuses, vacation, sick leave, maternity leave and other leave for such personnel. There have been no audits of the equal employment opportunity practices of the UHS Affiliates and, to the best knowledge of the UHS Affiliates, no basis for such claim exists. There is no strike, dispute, slowdown or stoppage pending or threatened against or involving any UHS Affiliate and none has occurred since January 1, 1988. No UHS Affiliate has received notice from any union or employees setting forth demands for representation, elections or for present or future changes in wages, terms of employment or working conditions.

(l) Schedule 4.12 sets forth all outstanding loans and other advances (other than travel advances in the ordinary course of business which do not exceed \$1,000 per individual) made by any UHS Affiliate to any of its officers, directors, employees, stockholders or consultants.

4.13 Insurance Policies. Schedule 4.13 contains a correct and complete description of all insurance policies of the UHS Affiliates reflecting policy numbers, identity of insurer, amounts and coverage covering the UHS Affiliates and their respective employees, agents and assets. Each such policy is now and will be up to the Effective Time on a claims made basis with no premium arrearage. All such policies are in full force and effect with responsible insurance carriers and, to the best knowledge of the UHS Affiliates, provide adequate coverage to insure fully against risks to which the UHS Affiliates and their employees, businesses, properties and other assets may be exposed in the operation of their respective business. All retroactive premium adjustments under any worker's compensation policy of the UHS Affiliates have been recorded in the UHS Affiliates' respective financial statements in accordance with generally accepted accounting principles and are reflected in the UHS Financial Statements. No notice of cancellation or termination has been received with respect to any such policy. To the best knowledge of the UHS Affiliates, no UHS Affiliate has failed to give any notice or present any claim thereunder in due and timely fashion. There are no pending claims against such insurance by any UHS Affiliate as to which the insurers have denied coverage or otherwise reserved rights. No UHS Affiliate has been refused any insurance with respect to its assets or operations, nor has its coverage been limited, by any insurance carrier to which it has applied for any such insurance or with which it has carried insurance since the date it commenced operations.

4.14 Medicare, Medicaid and Other Health Care Programs.

(a) The medical staff of the UHS Hospitals consists substantially of the persons whose names and status are set forth on Schedule 4.14 hereto.

(b) Each UHS Affiliate is certified for participation in the Medicare and Medicaid programs, and has a current and valid provider contract with such programs.

(c) The UHS Affiliates have timely filed or caused to be timely filed all cost reports and other reports of every kind whatsoever required by any Governmental Entity to be made by them with respect to the purchase of services by third-party purchasers, including but not limited to Medicare and Medicaid programs and other insurance carriers and, subject to normal adjustments (that shall not be material and adverse) to such reports upon audit or review by such third parties, all such reports are complete and accurate in all material respects. The UHS Affiliates have paid or caused to be paid all refunds, discounts or adjustments which have become due pursuant to said reports and there is no further liability now due (whether or not disclosed in any report heretofore or hereafter made) for any such refund, discount or adjustment, and no interest or penalties accruing with respect thereto, except as may be disclosed in the UHS Financial Statements. The UHS Affiliates have delivered to C/HCA true and correct copies of all of their Medicare and Medicaid Cost Reports submitted by the UHS Affiliates for the two most recent fiscal years.

4.15 Facility Surveys. True and complete copies of any and all licensure survey reports and any and all Medicare and/or Medicaid and JCAHO survey reports issued within the 24-month period preceding the execution of this Agreement with respect to the UHS Hospitals for which surveys are conducted by the appropriate state or Federal agencies and JCAHO having jurisdiction thereof have been furnished to C/HCA, along with true and complete copies of any and all plans of correction which

the agencies in question required to be submitted in response to said survey reports and all deficiencies reflected have been corrected at the expense of the UHS Affiliates.

4.16 Licenses. Each UHS Affiliate and its respective officers, directors, partners and employees possess all governmental registrations, certificates of need, consents, qualifications, accreditations, licenses, permits, authorizations and approvals that are material to the ownership or operation of the health care facilities owned and operated by the UHS Affiliates except where the failure to possess the same would not have a material adverse effect on the ownership or operation of the UHS Assets, and the use of its properties as presently conducted or used including, without limitation, all Licenses. Schedule 4.16 contains a true and complete list of the Licenses, exclusive of any Licenses with respect to state or local sales, use or other Taxes. All of the Licenses are in full force and effect and no action or claim is pending nor, to the best knowledge of the UHS Affiliates, is threatened to revoke or terminate any License or declare any License invalid in any material respect. No UHS Affiliate or any of its officers or directors or, to the best knowledge of the UHS Affiliates, employees is in default in any material respect under any of such Licenses and, to the best knowledge of the UHS Affiliates, other than as set forth on the UHS Hospitals survey reports, copies of which have been provided to C/HCA, no event has occurred and no condition exists which, with the giving of notice, the passage of time, or both, would constitute a default thereunder, which default could reasonably be expected to have a material adverse effect on the business or operations of any UHS Affiliate.



## 4.17 Taxes.

(a) Except as specifically set forth in Schedule 4.17, (i) the UHS Affiliates have filed on a timely basis (taking into account any extensions received from the relevant taxing authorities) all returns and reports of Taxes relating to the UHS Assets or the UHS Hospitals that are or were required to be filed with the appropriate taxing authorities in all jurisdictions in which such returns and reports are or were required to be filed, and all such returns and reports are true, correct and complete in all material respects.

(b) All Taxes relating to the UHS Assets or the UHS Hospitals that the UHS Affiliates are or were required by law to withhold, to deposit or to collect have been duly withheld, deposited or collected and, to the extent required, have been paid to the relevant taxing authority or have been accrued and reflected in the accounts of the UHS Hospitals.

4.18 Tax Returns Through Hospital Closing Date. The UHS Affiliates shall prepare and file on a timely basis all reports and returns of Taxes relating to the UHS Assets or the UHS Hospitals with respect to all periods through and including the Hospital Closing Date and shall pay or cause to be paid when due all Taxes relating to the UHS Assets or the UHS Hospitals for such periods, including any interest, additions to tax or penalties thereon together with interest on such additions to tax or penalties except as otherwise assumed by C/HCA pursuant to this Agreement. The UHS Affiliates shall be entitled to receive any tax refund of Taxes attributable to the UHS Assets or conduct of the UHS Hospitals in respect of any period prior to and through the Hospital Closing Date to the effect paid by the UHS Affiliates.

4.19 FIRPTA Affidavits. At the Hospital Closing, the UHS Affiliates and UHS of Delaware shall execute and deliver to C/HCA affidavits complying in all respects with Section 1445(b)(2) of the Code.

4.20 No Illegal or Improper Transactions. No UHS Affiliate has, nor have any of their respective directors, officers, affiliates, employees, directly or indirectly used funds or other assets of any UHS Affiliate, or made any promise or undertaking in such regard, for (a) illegal contributions, gifts, entertainment or other expenses relating to political activity; (b) illegal payments to or for the benefit of governmental officials or employees, whether domestic or foreign; (c) illegal payments to or for the benefit of any person, firm, corporation or other entity, or any director, officer, employee, agent or representative thereof; or (d) the establishment or maintenance of a secret or unrecorded fund; and there have been no false or fictitious entries made in the books or records of any UHS Affiliate.

4.21 No Misleading Statements. This Agreement, the information and schedules referred to herein and the information that has been furnished to C/HCA in connection with the transactions contemplated hereby do not include any untrue statement of a material fact and do not omit to state any material fact necessary to make the statements contained herein or therein, in light of the circumstances under which they were made, not misleading.

4.22 Special Funds. None of the UHS Assets are subject to, and the UHS Group, the UHS Affiliates and UHS of Delaware shall indemnify and hold C/HCA harmless from and against, any liability in respect of amounts received by the UHS Affiliates or others for the purchase or improvement of the UHS Assets or any part

thereof under restricted or conditioned grants or donations, including, without limitation, monies received under the Public Health Service Act, 42 U.S.C. Section 291 et seq. or the provisions of the Higher Education Facilities Act of 1965, 20 U.S.C. Section 1132(a), et seq., or under any comparable state laws.

4.23 Medical Staff Matters. The UHS Affiliates have delivered to C/HCA true, correct, and complete copies of the bylaws and rules and regulations of the medical staffs of UHS Hospitals. With regard to the medical staffs of the UHS Hospitals and except as set forth on Schedule 4.23 hereto, there are no pending or, to the best of the UHS Affiliates' knowledge, threatened disputes with applicants, staff members or health professional affiliates and all appeal periods in respect of any medical staff member or applicant against whom an adverse action has been taken have expired.

4.24 No Broker. UHS, the UHS Affiliates and UHS of Delaware represent and warrant that they have not dealt with any broker or finder in connection with any of the transactions contemplated by this Agreement.

4.25 No Augusta-Aiken Hospitals. The UHS Affiliates, UHS of Delaware and the UHS Group do not now and will not at the Hospital Closing own or operate, directly or indirectly, through subsidiaries, partnerships, or otherwise, any "acute care hospital" (as such term is defined in the FTC Consent Order) in the counties of Richmond and Columbia in Georgia and Aiken County in South Carolina.

4.26 Conveyance by UHS of Delaware. The UHS Group, the UHS Affiliates and UHS of Delaware do not know of any facts or circumstances which indicate that the transfer of the UHS Assets through UHS of Delaware to C/HCA is

likely to result in any Losses which would not have been incurred but for the involvement of UHS of Delaware in the transaction.

5. Obligations Before and After Hospital Closing.

From and after the date hereof until the Hospital Closing Date and thereafter, to the extent applicable, C/HCA, on the one hand, and UHS and the UHS Affiliates agree, on the other, that:

5.1 Access to Premises and Information. Each party and their counsel, accountants, and other representatives will have reasonable access during normal business hours to each other party's properties, books, accounts and records, contracts and documents of or relating to the business of the C/HCA Hospitals or the UHS Hospitals, as the case may be, provided that such access shall not interfere with the operation of such facility. Each party will furnish or cause to be furnished to the other party and its representatives all data and information concerning the business, finances, and properties of the C/HCA Hospitals or the UHS Hospitals, as the case may be, that may reasonably be requested.

5.2 Conduct of Business in Ordinary Course. C/HCA and the UHS Affiliates will carry on their respective businesses diligently, in the ordinary course and in substantially the same manner as such business has previously been carried out, and will not make or institute any unusual or novel purchase, sale, lease, management, accounting policy or operation that will vary materially from those methods used by it during the 12 month period ending on the date of this Agreement.

5.3 C/HCA Negative Covenants. From the date hereof to the Hospital Closing Date, C/HCA will not, without the prior written consent of the UHS Affiliates:

(a) amend or terminate any of the C/HCA Contracts, enter into any contract or commitment, or incur or agree to incur any liability, except in the ordinary course of business and in no event greater than Five Thousand Dollars (\$5,000) per item or which is not terminable without cause or penalty within thirty (30) days following the Hospital Closing;

(b) make offers of employment to any employees of the C/HCA Hospitals for employment with C/HCA or any affiliate of C/HCA for periods subsequent to the Hospital Closing, other than those employees who do not accept offers of post-closing employment from the UHS Group;

(c) increase compensation payable or to become payable or make a bonus payment to or otherwise enter into one or more bonus agreements with any employee or agent, except in the ordinary course of business in accordance with existing personnel policies;

(d) create, assume or permit to exist any new mortgage, pledge or other lien or encumbrance upon any of the C/HCA Assets, whether now owned or hereafter acquired;

(e) sell, assign or otherwise transfer or dispose of any property, plant or equipment (other than supplies), except in the normal course of business with comparable replacement thereof; or

(f) take any action outside the ordinary course of business.

5.4 UHS Negative Covenants. From the date hereof to the Hospital Closing Date, the UHS Affiliates will not, without prior written consent of C/HCA and except as permitted hereunder:

(a) amend or terminate any of the UHS Contracts, enter into any contract or commitment, or incur or agree to incur any liability, except in the ordinary course of business and in no event greater than Five Thousand Dollars (\$5,000) per item or which is not terminable without cause or penalty within thirty (30) days following the Hospital Closing;

(b) make offers of employment to any employees of the UHS Hospitals for employment with the UHS Group or any affiliate thereof for periods subsequent to the Hospital Closing, other than those employees who do not accept offers of post-closing employment from C/HCA;

(c) increase compensation payable or to become payable or make a bonus payment to or otherwise enter into one or more bonus agreements with any employee or agent, except in the ordinary course of business in accordance with existing personnel policies;

(d) create, assume or permit to exist any new mortgage, pledge or other lien or encumbrance upon any of the UHS Assets, whether now owned or hereafter acquired;

(e) sell, assign or otherwise transfer or dispose of any property, plant or equipment (other than supplies), except in the normal course of business with comparable replacement thereof; or

(f) take any action outside the ordinary course of business. Notwithstanding the foregoing, it is understood and agreed by the parties hereto that immediately prior to the consummation of the transactions contemplated hereby, the UHS Affiliates intend to transfer the UHS Assets to UHS of Delaware which, in turn,

will transfer the UHS Assets to C/HCA. Prior to the transfer, UHS of Delaware will own no assets nor have any liabilities which will affect the UHS Assets in any manner whatsoever. The transfer involving UHS of Delaware will not change the character, quality, nature, or title to the UHS Assets and C/HCA will receive and take title to the UHS Assets as if they were conveyed directly by Dallas Family Hospital, Inc. and Westlake Medical Center, Inc. and Universal Health Realty Income Trust. Further, the transfer shall not affect the assignment of contracts or the licensure or certification status of the Dallas Hospital or the California Hospital. Any costs and expenses incurred by C/HCA shall be reimbursed by the UHS Group and the failure of the UHS Affiliates to conform the transfer of the UHS Assets to effectuate the intent of this Section shall be subject to indemnification as provided in Section 10.3(c).

5.5 Representations and Warranties True at Closing. All representations and warranties of the parties set forth in this Agreement will also be true and correct as of the Hospital Closing Date as if made on that date. The parties undertake to revise all Schedules hereto as may be necessary from the date hereof until the Hospital Closing Date. No such revisions made pursuant to this Section shall be deemed to cure any breach of any representation or warranty made in this Agreement unless the non-breaching parties specifically agree thereto in writing, nor shall any such revision be considered to constitute or give rise to a waiver by the non-breaching party of any condition set forth in this Agreement.

5.6 Further Authorization. The parties hereto will take, or cause to be taken, such further actions as may be necessary or appropriate to authorize the execution, delivery and performance of this Agreement by them.

5.7 Employee Matters. Each of C/HCA and the UHS Affiliates shall undertake the following on or before the Hospital Closing Date:

(a) C/HCA and the UHS Affiliates shall be permitted to interview all employees of each other employed at the C/HCA Hospitals or the UHS Hospitals, as the case may be, and discuss with, and offer employment to, any of such employees. It is understood and agreed, however, that any party shall not be obligated to offer employment to any of the other party's employees. C/HCA, with respect to the UHS Assets, and the UHS Group with respect to the C/HCA Assets, shall be responsible for complying with the Worker Adjustment and Retraining Act, 29 U.S.C. Sections 2101-2109 (the "WARN Act") and shall be responsible for any liabilities, costs or expenses associated with a violation of the WARN Act caused by the decision of either of C/HCA or the UHS Group, as the case may be, not to offer employment to any of the other party's employees.

(b) Health benefit plans of each of C/HCA and UHS Affiliates with respect to the employees of the C/HCA Hospitals and the UHS Hospitals shall cease as of the Effective Time and each of the parties shall remain liable for all claims for participants who are hospitalized as of the Hospital Closing Date, but such liability shall cease as of the date of discharge. After the Effective Time, each party shall be responsible for all employee health claims, whether or not resulting in hospitalization, incurred by the employees hired by it. Each of C/HCA and the UHS Affiliates shall have continuation liability for their respective COBRA continuees who became eligible prior to the Hospital Closing Date. Each of C/HCA and the UHS Group agrees that it will arrange that, from and after the Hospital Closing Date, through the end of the



health benefit plan's fiscal year end, each employee hired by it need not pay any deductible amount in respect of his health insurance coverage more than that amount which would have been payable had such employee remained in the employ of the other party through the end of the health benefits plan's fiscal year end.

(c) Former employees of either of C/HCA or the UHS Affiliates who accept employment with the other party after the Hospital Closing Date shall be given credit for all years of service at the C/HCA Hospitals or the UHS Hospitals, as the case may be, for all employee benefit purposes, including without limitation, the determination of the amount of vesting of retirement plan benefits and other similar purposes; provided that this provision shall not require either of C/HCA or the UHS Group to assume obligations or liabilities otherwise excluded in other sections of this Agreement.

(d) The obligations of either of C/HCA or the UHS Group under this section are enforceable only by the other party and no employee shall have any rights under this section as a third party beneficiary. After the Hospital Closing Date, each party expressly reserves the right to hire, review, demote and terminate individual employees as it deems appropriate.

5.8 No Shopping. From the date of this Agreement until the termination hereof, no party hereto nor any of their respective officers, directors, stockholders, agents or representatives shall provide information to, solicit any indications of interest from, or negotiate with, any third party with respect to any possible sale of stock or assets, merger or other business combination or similar

transaction involving the C/HCA Hospitals or the UHS Hospitals until the earlier of (i) termination of this Agreement by the parties hereto and (ii) March 31, 1995.

5.9 Covenants of C/HCA. C/HCA agrees that neither it nor any of its affiliates will, for a period of four (4) years from the Hospital Closing Date directly or indirectly (i) own, build, invest in, assist in the development of, or have any management role in, any firm, corporation, business or other organization or enterprise engaged, directly or indirectly, in the provision of health care services within twenty (20) miles of the Aiken Hospitals except that this restriction shall not apply with respect to such activities in Georgia nor with respect to current activities of a C/HCA affiliate with respect to occupational medical services, (ii) solicit for employment any employee of the UHS Group, the UHS Affiliates or UHS of Delaware or any of their affiliates who work at the Aiken Hospitals after the Hospital Closing, or (iii) interfere with, disrupt or attempt to disrupt the relationship between the UHS Sub and any of its lessors, lessees, licensors, licensees, customers or suppliers. If any court determines that any of the restrictive covenants set forth in this Section 5.9, or any part of such covenants, is unenforceable because of the duration of such provision or the area covered thereby, such court shall have the power to reduce the duration or area of such provision and, in its reduced form, such provision shall then be enforceable and shall be enforced.

5.10 Covenants of UHS, UHS Sub, the UHS Affiliates and UHS of Delaware. UHS, UHS Sub, the UHS Affiliates and UHS of Delaware agree that none of them nor any of their affiliates will, for a period of four (4) years from the Hospital Closing Date directly or indirectly (i) own, build, invest in, assist in the development

of, or have any management role in, any firm, corporation, business or other organization or enterprise engaged, directly or indirectly, in the provision of health care services within fifteen (15) miles of the UHS Hospitals, (ii) solicit for employment any employee of C/HCA or any of their affiliates who work at the UHS Hospitals after the Hospital Closing, or (iii) interfere with, disrupt or attempt to disrupt the relationship between C/HCA and any of its lessors, lessees, licensors, licensees, customers or suppliers. If any court determines that any of the restrictive covenants set forth in this Section 5.10, or any part of such covenants, is unenforceable because of the duration of such provision or the area covered thereby, such court shall have the power to reduce the duration or area of such provision and, in its reduced form, such provision shall then be enforceable and shall be enforced. Notwithstanding the foregoing, nothing herein shall be construed as prohibiting the acquisition and the operation of Timberlawn Mental Health System, located in Dallas, Texas, by UHS.

5.11 Consents. The parties hereto, as promptly as practicable, (i) will make, or cause to be made, all filings and submissions under laws, rules and regulations applicable to it, or to its subsidiaries and affiliates, as may be required for it to consummate the transactions contemplated hereby including without limitation, all filings under the Hart Scott Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act") and any filings required by the Decision and Order of the Federal Trade Commission issued July 5, 1994 (the "FTC Consent Order"); (ii) will use its reasonable efforts to obtain, or cause to be obtained, all authorizations, approvals, consents and waivers from all persons and Governmental Entities necessary to be obtained by it, or any subsidiaries or affiliates, in order for it so to consummate such

transactions; and (iii) will use its best efforts to take, or cause to be taken, all other actions necessary, proper or advisable in order for it to fulfill its obligations hereunder. The parties hereto will coordinate and cooperate with one another in exchanging information and supplying such reasonable assistance as may be reasonably requested by each in connection with the foregoing and shall comply promptly with requests by the FTC or the Justice Department for additional information so that any waiting periods under the HSR Act or the FTC Consent Order will expire as soon as reasonably possible after the execution and delivery of this Agreement. Each party hereto shall use its reasonable efforts to assist each other party in obtaining all consents required under the UHS Assumed Contracts or the C/HCA Assumed Contracts, as the case may be, as a result of this Agreement and the transactions contemplated hereby.

5.12 Public Announcements. Unless and to the extent required by law, each party hereto will agree in advance prior to the issuance by either of any press release or the making of any public statement with respect to this Agreement and the transactions contemplated hereby and shall not issue any such press release or make any such public statement without the agreement of the other party; provided, however, no press releases or public statements with respect to this Agreement and the transactions contemplated hereby shall be made prior to the Hospital Closing. In the event that either party is required to issue a press release or make a public statement by law, it will notify the other party of the contents thereof in advance of the issuance or making thereof.

5.13 Confidentiality Obligations of the Parties. The confidentiality obligations of the parties from the time of the execution of this Agreement are contained in Exhibit A.

5.14 Bulk Sales Law. Each party hereby waives compliance by each other party with all applicable bulk sales laws; provided, however, that this waiver shall not relieve a party of its indemnification obligations to another party pursuant to Section 10 hereof as a result of non-compliance with any applicable bulk sales or similar laws.

5.15 C/HCA Terminating Cost Reports and Accounts Receivable. C/HCA will prepare and timely file all cost reports relating to the C/HCA Hospitals for periods ending on or prior to the Hospital Closing Date or required as a result of the consummation of the transactions described herein, including, without limitation, those relating to the Medicare and Medicaid programs (the "C/HCA Cost Reports"). The UHS Group will use the UHS Group's reasonable best efforts to forward to C/HCA any and all correspondence relating to the Accounts Receivable and, with respect to receivables relating to the Medicare and Medicaid Programs, any corresponding payables relating to the C/HCA Hospitals for periods prior to the Hospital Closing Date ("C/HCA Receivables") and the C/HCA Cost Reports within five (5) business days after receipt by the UHS Group. The UHS Group will not reply to any such correspondence without C/HCA's written approval, which approval shall not be unreasonably withheld or delayed and which approval shall be deemed given if C/HCA has not responded to the UHS Group within ten (10) business days after any request. The UHS Group will remit any receipts relating to the C/HCA Receivables or the C/HCA Cost Reports within

five (5) business days after receipt by the UHS Group and will use the UHS Group's reasonable best efforts to forward any demand for payments within five (5) business days after receipt by the UHS Group. C/HCA shall retain all rights to the C/HCA Receivables and the C/HCA Cost Reports including any payables resulting from such reports. Such rights shall include, without limitation, the right to appeal any Medicare determinations relating to the C/HCA Receivables and the C/HCA Cost Reports. C/HCA shall retain the originals of the C/HCA Cost Reports, correspondence, work papers and other documents relating to the C/HCA Cost Reports and the C/HCA Receivables. C/HCA will furnish copies of such documents to the UHS Group upon request and allow the UHS Group reasonable access to such documents.

The UHS Group, upon reasonable notice, during normal business hours, will cooperate with C/HCA in regard to the preparation, filing, handling, and appeals of the C/HCA Cost Reports and C/HCA's collection of the C/HCA Receivables. Such cooperation shall include the providing of accounts payable invoices reasonably as received, statistics and obtaining files at the C/HCA Hospitals and the coordination with C/HCA pursuant to adequate notice of Medicare and Medicaid exit conferences or meetings, as well as reasonable cooperation with respect to space and records to collect the C/HCA Receivables. The UHS Group will, upon reasonable notice, during normal business hours and subject to applicable law regarding confidentiality of patient records, provide reasonable access by C/HCA to all records of the C/HCA Hospitals and will allow C/HCA to copy any documents relating to the C/HCA Cost Reports and appeals thereof and the C/HCA Receivables.

5.16 UHS Terminating Cost Reports and Accounts Receivables. The UHS Affiliates will prepare and timely file all cost reports relating to the UHS Hospitals for

period ending on or prior to the Hospital Closing Date or required as a result of the consummation of the transactions described herein, including, without limitation, those relating to the Medicare and Medicaid programs (the "UHS Cost Reports"). C/HCA will use its reasonable best efforts to forward to the UHS Affiliates any and all correspondence relating to the Accounts Receivable and, with respect to receivables relating to the Medicare and Medicaid programs, any corresponding payables relating to the UHS Hospitals for periods prior to the Hospital Closing Date ("UHS Receivables") and the UHS Cost Reports within five (5) business days after receipt by C/HCA. C/HCA will not reply to any such correspondence without the UHS Affiliates's written approval, which approval shall not be unreasonably withheld or delayed and which approval shall be deemed given if the UHS Affiliates have not responded to C/HCA within ten (10) business days after any request. C/HCA will remit any receipts relating to the UHS Receivables or the UHS Cost Reports within five (5) business days after receipt by C/HCA and will use C/HCA's reasonable best efforts to forward any demand for payments within five (5) business days after receipt by C/HCA. The UHS Affiliates shall retain all rights to the UHS Receivables and the UHS Cost Reports including any payables resulting from such reports. Such rights shall include, without limitation, the right to appeal any Medicare determinations relating to the UHS Receivables and the UHS Cost Reports. The UHS Affiliates shall retain the originals of the UHS Cost Reports, correspondence, work papers and other documents relating to the UHS Cost Reports and the UHS Receivables. The UHS Affiliates will furnish copies of such documents to C/HCA upon request and allow C/HCA reasonable access to such documents.

C/HCA, upon reasonable notice, during normal business hours, will cooperate with the UHS Affiliates in regard to the preparation, filing, handling, and appeals of the UHS Cost Reports and its collection of the UHS Receivables. Such cooperation shall include the providing of accounts payable invoices reasonably as received, statistics and obtaining files at the UHS Hospitals and the coordination with the UHS Affiliates pursuant to adequate notice of Medicare and Medicaid exit conferences or meetings as well as reasonable cooperation with respect to space and records to collect the UHS Receivables. C/HCA will, upon reasonable notice, during normal business hours and subject to applicable law regarding confidentiality of patient records, provide reasonable access by the UHS Affiliates to all records of the UHS Hospitals and will allow the UHS Affiliates to copy any documents relating to the UHS Cost Reports and appeals thereof and the UHS Medicare Receivables.

5.17 C/HCA's Tax Treatment of the Transaction. Each of the parties hereto agrees to cooperate in allowing C/HCA, with respect to the transactions contemplated hereby to effectuate a like-kind exchange for tax purposes under Section 1031 of the Code and related regulatory provisions. Accordingly, the UHS Group, the UHS Affiliates and UHS of Delaware shall execute such documents, instruments and agreements which are required to be executed and delivered by them in order to accomplish the desired result.

5.18 Employment of Mickey Smith. Mickey Smith is presently an employee of a C/HCA affiliate in Augusta, Georgia. The UHS Group shall be prohibited from offering Mr. Smith employment for a period of three (3) years following the Hospital Closing Date.



5.19 Financial Statements. On or prior to the Hospital Closing, the UHS Group may, at its sole cost and expense, and provided that such auditing activities do not disrupt the C/HCA Hospitals, audit the financial statements of C/HCA and file such audited financial statements with the Securities and Exchange Commission, if required, provided, however, that C/HCA consents to the presentation of the financial statements, which consent shall not unreasonably be withheld.

5.20 C/HCA Hospitals Operational Transition. To compensate C/HCA for services rendered and medicine, drugs, and supplies provided prior to the Hospital Closing Date (the "C/HCA Transition Services") with respect to patients admitted to the C/HCA Hospitals on or before the Hospital Closing Date but who are not discharged until after the Hospital Closing Date (such patients for the purposes of this Section 5.20 being referred to herein as the "Transition Patients"), the parties shall take the following actions:

(a) Medicare, Medicaid, CHAMPUS and Other DRG Transition Patients. As soon as practicable after the Hospital Closing Date, C/HCA shall deliver to the UHS Group a statement itemizing the C/HCA Transition Services provided by C/HCA prior to the Hospital Closing Date to DRG Transition Patients. The UHS Group shall pay to C/HCA an amount equal to (x) the total amounts paid or payable with respect to such DRG Transition Patient (including DRG, outlier and capital cost payments), multiplied by a fraction, the numerator of which shall be the total charges for the C/HCA Transition Services provided to such DRG Transition Patient by C/HCA, and the denominator of which shall be the sum of the total charges for the C/HCA Transition Services provided to such DRG Transition Patient by C/HCA plus the total charges charged by the UHS Group to such DRG Transition Patient after the Hospital

Closing Date minus (y) any deposits or co-payments made by such DRG Transition Patient to C/HCA. Such payment shall be made to C/HCA within thirty (30) days after receipt of such payments by the UHS Group, accompanied by copies of remittances and other supporting documentation as reasonably required by C/HCA. In the event that the UHS Group and C/HCA are unable to agree on the amount to be paid to C/HCA under this section, then such amount shall be determined by the accounting firm designated in Section 2.2 at their joint expense.

(b) Medicare, Medicaid, CHAMPUS and Other Cost-Based Transition Patients. With respect to cost-based Transition Patients (the "Medicare Straddle Patients"), the UHS Group shall pay to C/HCA an amount equal to (x) the total payments received for a Medicare Straddle Patient multiplied by a fraction, the numerator of which shall be the total number of days prior to the Hospital Closing for which C/HCA has provided C/HCA Transition Services to such Medicare Straddle Patient, and the denominator of which shall be the total number of days with respect to such patient's stay at the C/HCA Hospitals, minus (y) any deposits or copayments made by such Medicare Straddle Patient to C/HCA. Such payment shall be made to C/HCA within thirty (30) days after receipt of payments by the UHS Group with respect to such Medicare Straddle Patient, accompanied by documentation reasonably required by C/HCA.

(c) Other Patients. As of the close of business on the Hospital Closing Date, C/HCA shall prepare cut-off billings for all patients not covered by the preceding paragraphs in this section (the "Straddle Patients"). If the UHS Group receives any amount with respect to such Straddle Patients which relate to services

rendered by C/HCA, the UHS Group shall immediately remit said full amount to C/HCA.

5.21 UHS Hospitals Operational Transition. To compensate the UHS Affiliates for services rendered and medicine, drugs, and supplies provided prior to the Hospital Closing Date (the "UHS Transition Services") with respect to patients admitted to the UHS Hospitals on or before the Hospital Closing Date but who are not discharged until after the Hospital Closing Date (such patients for the purposes of this Section 5.21 being referred to herein as the "Transition Patients"), the parties shall take the following actions:

(a) Medicare, Medicaid, CHAMPUS and Other DRG Transition Patients. As soon as practicable after the Hospital Closing Date, the UHS Affiliates shall deliver to C/HCA a statement itemizing the UHS Transition Services provided by the UHS Affiliates prior to the Hospital Closing Date to DRG Transition Patients. C/HCA shall pay to the UHS Affiliates an amount equal to (x) the total amounts paid or payable with respect to such DRG Transition Patient (including DRG, outlier and capital cost payments), multiplied by a fraction, the numerator of which shall be the total charges for the UHS Transition Services provided to such DRG Transition Patient by UHS, and the denominator of which shall be the sum of the total charges for the UHS Transition Services provided to such DRG Transition Patient by UHS plus the total charges charged by C/HCA to such DRG Transition Patient after the Hospital Closing Date minus (y) any deposits or co-payments made by such DRG Transition Patient to the UHS Affiliates. Such payment shall be made to the UHS Affiliates within thirty (30) days after receipt of such payments by C/HCA, accompanied by copies of remittances and other supporting documentation as reasonably required by the UHS

Affiliates. In the event that the UHS Affiliates and C/HCA are unable to agree on the amount to be paid to the UHS Affiliates under this section, then such amount shall be determined by the accounting firm designated in Section 2.2 at their joint expense.

(b) Medicare, Medicaid, CHAMPUS and Other Cost-Based Transition Patients. With respect to cost-based Transition Patients (the "Medicare Straddle Patients"), C/HCA shall pay to the UHS Affiliates an amount equal to (x) the total payments received for a Medicare Straddle Patient multiplied by a fraction, the numerator of which shall be the total number of days prior to the Hospital Closing for which the UHS Affiliates has provided UHS Transition Services to such Medicare Straddle Patient, and the denominator of which shall be the total number of days with respect to such patient's stay at the UHS Hospitals, minus (y) any deposits or copayments made by such Medicare Straddle Patient to UHS. Such payment shall be made to the UHS Affiliates within thirty (30) days after receipt of payments by C/HCA with respect to such Medicare Straddle Patient, accompanied by documentation reasonably required by the UHS Affiliates.

(c) Other Patients. As of the close of business on the Hospital Closing Date, the UHS Affiliates shall prepare cut-off billings for all patients not covered by the preceding paragraphs in this section (the "Straddle Patients"). If C/HCA receives any amount with respect to such Straddle Patients which relate to services rendered by the UHS Affiliates, C/HCA shall immediately remit said full amount to the UHS Affiliates.

6. Conditions Precedent to the Performance of the UHS Group, the UHS Affiliates and UHS of Delaware. The obligations of the UHS Group, the UHS Affiliates and UHS of Delaware under this Agreement are subject to the satisfaction,

at or before the Hospital Closing, of all the conditions set out below. The UHS Group, the UHS Affiliates and UHS of Delaware may waive any or all of these conditions in whole or in part without prior notice; provided, however, that no such waiver of a condition shall constitute a waiver by the UHS Group, the UHS Affiliates or UHS of Delaware of any of their other rights or remedies, at law or in equity, if C/HCA is in default of any of the representations, warranties, or covenants contained in this Agreement, except to the extent that such defaults are expressly waived.

6.1 Accuracy of Representations and Warranties. All representations and warranties by C/HCA in this Agreement or in any agreement or in any written statement that is delivered to the UHS Group, the UHS Affiliates or UHS of Delaware pursuant to this Agreement will be true and correct on and as of the Hospital Closing Date as though made on that date.

6.2 Performance. C/HCA will have performed, satisfied, and complied with all covenants, agreements, and conditions required by this Agreement to be performed or complied with by them on or before the Hospital Closing Date.

6.3 No Material Adverse Change. There shall have been no change in the C/HCA Assets, tangible property, condition, financial or otherwise, results of operations or prospects of C/HCA and the C/HCA Hospitals from September 30, 1994 which in the aggregate are materially adverse to the condition, financial or otherwise, of C/HCA or the C/HCA Hospitals.

6.4 Certification by the Company. The UHS Group, the UHS Affiliates and UHS of Delaware will have received a certificate, dated the Hospital Closing Date, signed by a Vice President of C/HCA certifying, that the conditions specified in Sections 6.1, 6.2 and 6.3 hereof have been fulfilled, including, but not limited to, certified copies

of all resolutions of C/HCA pertaining to corporate authorization of the execution, delivery and performance of this Agreement.

6.5 Opinion of C/HCA's Counsel. The UHS Group shall have received an opinion from the assistant general counsel to C/HCA's parent corporation, Columbia/HCA Healthcare Corporation dated as of the Hospital Closing Date and addressed to the UHS Group, in form and substance satisfactory to the UHS Group to the effect that: (i) C/HCA is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation; (ii) C/HCA is qualified to carry on its business in the places and in the manner as now conducted; (iii) C/HCA has taken all steps necessary to obtain all material licenses and permits that are required by hospital or health care regulatory bodies or hospital or health care administrative agencies for the conduct of the business in which the C/HCA Hospitals are engaged in each jurisdiction or place where the conduct of such business requires such licenses or permits, except where any failure to possess any such item would not have a material adverse effect of the business of the C/HCA Hospitals; (iv) C/HCA has full corporate power and authority to make, execute, deliver and perform this Agreement, and all corporate and other proceedings required to be taken by C/HCA to authorize the execution, delivery and performance of this Agreement, and to sell, convey, assign, transfer and deliver the C/HCA Assets as herein contemplated have all been duly and properly taken; (v) this Agreement and all deeds, assignments and other instruments of conveyance and transfer delivered hereunder constitute the valid and binding obligations of C/HCA, enforceable in accordance with their respective terms, except as enforceability against them may be restricted, limited or delayed by applicable bankruptcy or other laws affecting creditors' rights and debtors' relief generally; (vi)

neither the execution and delivery of this Agreement, nor the consummation of the transactions herein contemplated, nor the compliance and fulfillment of the terms and conditions hereof will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under the Articles of Incorporation or Bylaws of C/HCA; and (vii) to the best of such counsel's knowledge, no ungiven notice to, or unobtained consent, authorization, approval or order of any court or governmental agency or body required to be obtained by C/HCA is required for the consummation of the transactions described herein by C/HCA. Such opinion shall include any other matters incident to the matters herein contemplated as the UHS Group's counsel may reasonably request. In rendering such opinion, such counsel may rely upon certificates of governmental officials and may place reasonable reliance upon certificates of officers of C/HCA.

6.6 Absence of Litigation. No action, suit, or proceeding before any court or any Governmental Entity, pertaining to the transactions contemplated by this Agreement or to their consummation, will have been instituted or threatened on or before the Hospital Closing Date.

6.7 Legal Prohibition. On the Hospital Closing Date, no injunction or order shall be in effect prohibiting consummation of the transactions contemplated hereby or which would make the consummation of such transactions unlawful and no action or proceeding shall have been instituted and remain pending before a Governmental Entity to restrain or prohibit the transactions contemplated by this Agreement and no adverse decision shall have been made by any such Governmental Entity which could materially adversely affect C/HCA or the C/HCA Hospitals. No federal, state or local statute, rule or regulation shall have been enacted the effect of

which would be to prohibit, restrict, impair or delay the consummation of the transactions contemplated hereby or restrict or impair the ability of the UHS Group to own or conduct the business of C/HCA.

6.8 Consents, Approvals, Permits, Licenses, etc. The waiting period under the HSR Act shall have expired or been terminated, all waiting periods, approvals and publication requirements of the FTC Consent Order shall have expired or been fulfilled and all material authorizations, consents, waivers, approvals, orders, registrations, qualifications, designations, declarations, filings or other action required with or from any Governmental Entity (including without limitation receipt of licenses to own and operate the C/HCA Hospitals in South Carolina for the UHS Group to conduct the business of C/HCA as currently conducted, approvals of the U.S. Department of Justice, the Federal Trade Commission and the South Carolina agencies responsible for hospital licensing) or third party (including without limitation all parties to each of the UHS Assumed Contracts) in connection with the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby shall have been duly obtained and shall be reasonably satisfactory to the UHS Group and the UHS Affiliates and their counsel, and copies thereof shall be delivered to the UHS Group and the UHS Affiliates no later than five (5) days prior to the Hospital Closing. No such consent or approval (a) shall be conditioned on the modification, cancellation or termination of any UHS Assumed Contract, or (b) shall impose on the UHS Group or the UHS Affiliates any material condition or provision or requirement with respect to the C/HCA Hospitals or its operation that is more restrictive than or different from the conditions imposed upon such operation prior to



the Hospital Closing, unless the UHS Group and the UHS Affiliates give their prior written approval.

6.9 Closing Matters. All proceedings to be taken by C/HCA in connection with the consummation of the transactions contemplated hereby and all certificates, opinions, instruments and other documents required to effect the transactions contemplated hereby shall be satisfactory in form and substance to the UHS Group and the UHS Affiliates and their counsel.

6.10 Supplemental Disclosure. If C/HCA shall have supplemented or amended any Schedule pursuant to its obligations set forth in Section 5.5 hereof and the supplemented or amended Schedule reflects information that, pursuant to reasonable and good faith calculations, has a material adverse effect on the value of the C/HCA Assets, the UHS Group, the UHS Affiliates and UHS of Delaware shall not have given notice to C/HCA that, as a result of information provided to the UHS Group, the UHS Affiliates and UHS of Delaware in connection with any or all of such amendments or supplements, the UHS Group, the UHS Affiliates and UHS of Delaware have determined not to proceed with the consummation of the transactions contemplated hereby.

6.11 Salick Healthcare. Westlake Medical Center, Inc. ("Westlake") and UHS shall take all necessary action to terminate the joint venture agreement between the California Hospital and Comprehensive Cancer Centers - West Valley, Inc. ("CCC"). In connection therewith, C/HCA shall assume no obligations of Westlake or of the UHS Group or the UHS Affiliates or UHS of Delaware, except CCC's right to continue as a tenant of the California Hospital on terms acceptable to C/HCA.

6.12 Realty Trust Conveyance. Universal Health Realty Income Trust shall have conveyed all of its interest in the California Hospital to the UHS Group, the UHS Affiliates or UHS of Delaware prior to the Hospital Closing.

6.13 C/HCA Risk of Loss. The risk of loss or damage to any of the tangible property, transfer of which is contemplated to be made by C/HCA hereby, shall remain with C/HCA until the Hospital Closing and C/HCA shall maintain its insurance policies covering the assets and the C/HCA Real Property through the Hospital Closing. With respect to the C/HCA Real Property:

(a) If prior to the Hospital Closing, all or any part of the C/HCA Real Property is destroyed or damaged by fire or the elements or by any other cause, C/HCA shall within ten (10) days provide written notice thereof to the UHS Group and shall also provide the UHS Group, together with such notice, copies of all insurance then in force relating to such C/HCA Real Property, whereupon the UHS Group may, by written notice to C/HCA within twenty (20) days after receipt of notice of the occurrence, elect in writing not to purchase the C/HCA Assets if such damage exceeds \$1,000,000 and if C/HCA does not agree to repair, restore and replace such C/HCA Real Property to the UHS Group's reasonable satisfaction and in compliance with all state licensing requirements and Laws within 60 days of the notice of the casualty delivered to the UHS Group. The UHS Group's election to so terminate may be exercised, however, if after C/HCA agrees to so repair, restore and replace, C/HCA fails to effect such repair, restoration and replacement within such 60 day period. Upon such election, this Agreement shall wholly cease and terminate. If all or any part of the C/HCA Real Property is so destroyed but this Agreement is not so terminated by the UHS Group, this Agreement shall not be affected, but the UHS Group shall retain all

of C/HCA's right, title and interest in and to the policies of insurance insuring against the loss and C/HCA's interest in sums payable thereunder and C/HCA shall pay to the UHS Group the amount of any deductibles under such insurance policies and any payments theretofore made on account of the destruction or damage.

(b) In the event of the institution of any proceeding involving the proposed taking by eminent domain or a taking by eminent domain of all or any portion of the C/HCA Real Property, which the UHS Group, in its sole discretion deems relevant or which would materially alter the grade, or access to any street or would, in the reasonable judgment of the UHS Group, otherwise injure, damage, or decrease the value of the C/HCA Real Property, the UHS Group shall have the right and option to elect to cancel and terminate this Agreement by giving C/HCA notice to such effect within thirty (30) days after its receipt of written notice of any such occurrence, whereupon this Agreement shall be deemed to be terminated. C/HCA shall within ten (10) days furnish the UHS Group with written notice of any such occurrence and all available data related thereto. Should the UHS Group so terminate this Agreement, this Agreement shall cease and terminate. If the UHS Group does not so terminate this Agreement, the UHS Group shall accept the C/HCA Real Property subject to such proceeding or without the portion of the C/HCA Real Property taken, and the UHS Group shall retain all of the right, title and interest of C/HCA, as owner of the C/HCA Real Property, in and to such proceeding and the proceeds of the award to be made in such proceeding, and C/HCA shall turn over to the UHS Group the proceeds of any award (or payment made pending the making of the award) already received by C/HCA to the extent not retained by C/HCA.

All insurance proceeds attributable to the damage, destruction, or casualty loss of any of the assets other than the C/HCA Real Property prior to the Hospital Closing Date not retained by C/HCA shall be assigned to the UHS Group at the Hospital Closing, and the Cash Deposit shall be reduced by an amount equal to the deductible amount under the applicable insurance policy.

6.14 Wage and Salaries; Termination of Pension Plans. To the extent not assumed by the UHS Group (as accrued and as part of the current liabilities assumed by the UHS Group), C/HCA shall have paid or made arrangements satisfactory to the UHS Group for the payment of all wages, salaries, pay and associated taxes, accrued to all of the C/HCA Hospitals' employees in respect of the C/HCA Assets as of the Hospital Closing. C/HCA shall have made arrangements according to the provisions of the C/HCA pension and retirement plans and in accordance with ERISA for the payment of all amounts under such plans required to be distributed to the C/HCA Hospitals' employees in respect of pension and retirement plans and shall have delivered to the UHS Group a form of the letter which C/HCA shall distribute to the C/HCA Hospitals' employees notifying such employees of their rights in respect of such pension and retirement plans.

6.15 Environmental Report. An engineering firm selected by the UHS Group to perform a Phase I environmental assessment on the C/HCA Hospitals (at the sole cost and expense of UHS) shall have delivered a Phase I Environmental Site Assessment Report to the UHS Group with respect to the C/HCA Assets, including the C/HCA Real Property, and the scope, findings and conclusions of such report shall have been reasonably satisfactory to the UHS Group.

6.16 Data Processing Agreement. UHS shall have agreed with C/HCA as to the provision by C/HCA of laboratory services, data processing services and computers, computer hardware and software equipment after the Hospital Closing Date at the C/HCA Hospitals.

6.17 Hyperbaric Chamber. UHS shall have agreed with C/HCA as to the assumption of or otherwise have mutually agreed with C/HCA as to the manner in which UHS will perform its obligations under the Hyperbaric Chamber Agreement dated August 8, 1994, between the California Hospital and HCSTM, Inc. (the "Contract").

6.18 Underground Storage Tank. UHS shall be reasonably satisfied with the condition and compliance with applicable laws of the underground storage tank ("UST") located at the Aiken Hospitals. In connection therewith, UHS shall be permitted (at its sole cost and expense) to complete prior to the Hospital Closing further investigation with respect to said UST and surrounding soils.

6.19 Condominium Unit. The sale of Unit II-100 by the UHS Affiliates to C/HCA shall have been consented to, or so long as the UHS Affiliates have diligently pursued obtaining such consent and such consent has not been obtained, the UHS Affiliates have otherwise provided C/HCA with the economic benefit and substantially similar use, possession and occupancy of Unit II-100 as the UHS Affiliates currently have pursuant to terms that are satisfactory to C/HCA, in compliance with all Laws and any rules and regulations of any condominium association, governing board or other group who has control over the operation and ownership issues associated with the medical office building.

7. Conditions Precedent to the Performance of C/HCA. The obligations of C/HCA under this Agreement are subject to the satisfaction, at or before the Hospital Closing, of all the conditions set out below. C/HCA may waive any or all of these conditions in whole or in part without prior notice; provided, however, that no such waiver of a condition shall constitute a waiver by C/HCA of any of its other rights or remedies, at law or in equity, if the UHS Group, the UHS Affiliates and UHS of Delaware are in default of any of the representations, warranties, or covenants contained in this Agreement, except to the extent that such defaults are expressly waived.

7.1 Accuracy of Representations and Warranties. All representations and warranties by the UHS Group, the UHS Affiliates and UHS of Delaware in this Agreement or in any agreement or in any written statement that is delivered to C/HCA pursuant to this Agreement will be true and correct on and as of the Hospital Closing Date as though made on that date subject to the provision contained in Section 5.4B hereof.

7.2 Performance. The UHS Group, the UHS Affiliates and UHS of Delaware will have performed, satisfied, and complied with all covenants, agreements, and conditions required by this Agreement to be performed or complied with by them on or before the Hospital Closing Date.

7.3 No Material Adverse Change. There shall have been no change in the UHS Assets, tangible property, condition, financial or otherwise, results of operations or prospects of the UHS Affiliates and the UHS Hospitals from September 30, 1994 which in the aggregate are materially adverse to the condition, financial or otherwise of UHS Affiliates or the UHS Hospitals.

7.4 Certification by the Company. C/HCA will have received certificates, dated the Hospital Closing Date, signed by the President and Chief Financial Officer of each of the UHS Group, the UHS Affiliates and UHS of Delaware, respectively, certifying, in such detail as C/HCA and their counsel may reasonably request, that the conditions specified in Sections 7.1, 7.2 and 7.3 hereof have been fulfilled, including, but not limited to, certified copies of all resolutions of the UHS Group, the UHS Affiliates and UHS of Delaware pertaining to corporate authorization of the execution, delivery and performance of this Agreement.

7.5 Opinion of UHS Counsel. C/HCA shall have received an opinion from the general counsel to the UHS Group and the UHS Affiliates dated as of the Hospital Closing Date and addressed to C/HCA, in form and substance satisfactory to C/HCA to the effect that: (i) the UHS Group, the UHS Affiliates and UHS of Delaware are corporations duly organized, validly existing and in good standing under the laws of the states of their incorporation; (ii) the UHS Group, the UHS Affiliates and UHS of Delaware are qualified to carry on its business in the places and in the manner as now conducted; (iii) the UHS Group, the UHS Affiliates and UHS of Delaware have taken all steps necessary to obtain all material licenses and permits that are required by hospital or health care regulatory bodies or hospital or health care administrative agencies for the conduct of the business in which the UHS Hospitals are engaged in each jurisdiction or place where the conduct of such business requires such licenses or permits, except where any failure to possess any such item would not have a material adverse effect on the business of the UHS Hospitals; (iv) the UHS Group, the UHS Affiliates and UHS of Delaware have full corporate power and authority to make, execute, deliver and perform this Agreement, and all corporate and other proceedings

required to be taken by the UHS Group, the UHS Affiliates and UHS of Delaware to authorize the execution, delivery and performance of this Agreement, and to sell, convey, assign, transfer and deliver the UHS Assets as herein contemplated have all been duly and properly taken; (v) this Agreement and all deeds, assignments and other instruments of conveyance and transfer delivered hereunder constitute the valid and binding obligations of the UHS Group, the UHS Affiliates and UHS of Delaware, enforceable in accordance with their respective terms, except as enforceability against them may be restricted, limited or delayed by applicable bankruptcy or other laws affecting creditors' rights and debtors' relief generally; (vi) neither the execution and delivery of this Agreement, nor the consummation of the transactions herein contemplated, nor the compliance and fulfillment of the terms and conditions hereof will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under the Articles of Incorporation or Bylaws of the UHS Group, the UHS Affiliates or UHS of Delaware; (vii) to the best of such counsel's knowledge, no ungiven notice to, or unobtained consent, authorization, approval or order of any court or governmental agency or body required to be obtained by the UHS Group, the UHS Affiliates or UHS of Delaware is required for the consummation of the transactions described herein by the UHS Group, the UHS Affiliates or UHS of Delaware and (viii) the conveyance of the UHS Assets to UHS of Delaware immediately prior to the Hospital Closing Date will not adversely affect C/HCA's rights under the Agreement. Such opinion shall include any other matters incident to the matters herein contemplated as C/HCA's counsel may reasonably request. In rendering such opinion, such counsel may rely upon certificates of governmental officials and may place reasonable



reliance upon certificates of officers of the UHS Group, the UHS Affiliates and UHS of Delaware.

7.6 Absence of Litigation. No action, suit, or proceeding before any court or any Governmental Entity, pertaining to the transactions contemplated by this Agreement or to their consummation, will have been instituted or threatened on or before the Hospital Closing Date.

7.7 Legal Prohibition. On the Hospital Closing Date, no injunction or order shall be in effect prohibiting consummation of the transactions contemplated hereby or which would make the consummation of such transactions unlawful and no action or proceeding shall have been instituted and remain pending before a Governmental Entity to restrain or prohibit the transactions contemplated by this Agreement and no adverse decision shall have been made by any such Governmental Entity which could materially adversely affect the UHS Affiliates and the UHS Hospitals. No federal, state or local statute, rule or regulation shall have been enacted the effect of which would be to prohibit, restrict, impair or delay the consummation of the transactions contemplated hereby or restrict or impair the ability of C/HCA to own or conduct the business of the UHS Affiliates.

7.8 Consents, Approvals, Permits, Licenses, etc. The waiting period under the HSR Act shall have expired or been terminated, all waiting periods, approvals and publication requirements of the FTC Consent Order shall have expired or been fulfilled and all material authorizations, consents, waivers, approvals, orders, registrations, qualifications, designations, declarations, filings or other action required with or from any Governmental Entity (including without limitation receipt of licenses to own and operate the UHS Hospitals in Texas and California for C/HCA to conduct

the business of the UHS Affiliates as currently conducted, approvals of the U.S. Department of Justice, the Federal Trade Commission and the Texas and California agencies responsible for hospital licensing) or third party (including without limitation all parties to each of the C/HCA Assumed Contracts) in connection with the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby shall have been duly obtained and shall be reasonably satisfactory to C/HCA and its counsel, and copies thereof shall be delivered to C/HCA no later than five (5) days prior to the Hospital Closing. No such consent or approval (a) shall be conditioned on the modification, cancellation or termination of any C/HCA Assumed Contract, or (b) shall impose on C/HCA any material condition or provision or requirement with respect to the UHS Hospitals or its operation that is more restrictive than or different from the conditions imposed upon such operation prior to the Hospital Closing, unless C/HCA gives its prior written approval.

7.9 Closing Matters. All proceedings to be taken by the UHS Affiliates and UHS of Delaware in connection with the consummation of the transactions contemplated hereby and all certificates, opinions, instruments and other documents required to effect the transactions contemplated hereby shall be satisfactory in form and substance to C/HCA and its counsel.

7.10 Supplemental Disclosure. If the UHS Group, the UHS Affiliates or UHS of Delaware shall have supplemented or amended any Schedule pursuant to their obligations set forth in Section 5.5 hereof and the supplemental or amended Schedule reflects information that, pursuant to reasonable and good faith calculations has a material adverse effect on the value of the UHS Assets, C/HCA shall not have given notice to the UHS Group, the UHS Affiliates and UHS of Delaware that, as a result of

information provided to C/HCA in connection with any or all of such amendments or supplements, C/HCA has determined not to proceed with the consummation of the transactions contemplated hereby.

7.11 Salick Healthcare. Westlake shall take all necessary action to terminate the joint venture agreement between the California Hospital and CCC. In connection therewith, C/HCA shall assume no obligations of Westlake or of the UHS Group or the UHS Affiliates, except CCC's right to continue as a tenant of the California Hospital on terms acceptable to C/HCA.

7.12 Realty Trust Conveyance. Universal Health Realty Income Trust shall have conveyed all of its interest in the California Hospital to the UHS Group, the UHS Affiliates or UHS of Delaware prior to the Hospital Closing.

7.13 UHS Risk of Loss. The risk of loss or damage to any of the tangible property, transfer of which is contemplated to be made by the UHS Affiliates or UHS of Delaware hereby, shall remain with the UHS Affiliates and UHS of Delaware until the Hospital Closing and the UHS Affiliates and UHS of Delaware shall maintain its insurance policies covering the assets and the UHS Real Property through the Hospital Closing. With respect to the UHS Real Property:

(a) If prior to the Hospital Closing, all or any part of the UHS Real Property is destroyed or damaged by fire or the elements or by any other cause, the UHS Affiliates and UHS of Delaware shall within ten (10) days provide written notice thereof to C/HCA and shall also provide C/HCA, together with such notice, copies of all insurance then in force relating to such UHS Real Property, whereupon C/HCA may, by written notice to the UHS Affiliates and UHS of Delaware within twenty (20) days after receipt of notice of the occurrence, elect in writing not to purchase the UHS

Assets if such damage exceeds \$1,000,000 and if the UHS Affiliates and UHS of Delaware do not agree to repair, restore and replace such UHS Real Property to C/HCA's reasonable satisfaction and in compliance with all state licensing requirements and Laws within 60 days of the notice of the casualty delivered to C/HCA. C/HCA's election to so terminate may be exercised, however, if after the UHS Affiliates and UHS of Delaware agree to so repair, restore and replace, the UHS Affiliates and UHS of Delaware fail to effect such repair, restoration and replacement within such 60 day period. Upon such election, this Agreement shall wholly cease and terminate. If all or any part of the UHS Real Property is so destroyed but this Agreement is not so terminated by C/HCA, this Agreement shall not be affected, but C/HCA shall retain all of the UHS Affiliates' and UHS of Delaware's right, title and interest in and to the policies of insurance insuring against the loss and the UHS Affiliates' and UHS of Delaware's interest in sums payable thereunder and the UHS Affiliates and UHS of Delaware shall pay to C/HCA the amount of any deductibles under such insurance policies and any payments theretofore made on account of the destruction or damage.

(b) In the event of the institution of any proceeding involving the proposed taking by eminent domain or a taking by eminent domain of all or any portion of the UHS Real Property, which C/HCA, in its sole discretion deems relevant or which would materially alter the grade, or access to any street or would, in the reasonable judgment of C/HCA, otherwise injure, damage, or decrease the value of the UHS Real Property, C/HCA shall have the right and option to elect to cancel and terminate this Agreement by giving the UHS Affiliates notice to such effect within thirty (30) days after its receipt of written notice of any such occurrence, whereupon this Agreement shall be deemed to be terminated. The UHS Affiliates shall within ten

(10) days furnish C/HCA with written notice of any such occurrence and all available data related thereto. Should C/HCA so terminate this Agreement, this Agreement shall cease and terminate. If C/HCA does not so terminate this Agreement, C/HCA shall accept the UHS Real Property subject to such proceeding or without the portion of the UHS Real Property taken, and the C/HCA shall retain all of the right, title and interest of the UHS Affiliates, as owner of the UHS Real Property, in and to such proceeding and the proceeds of the award to be made in such proceeding, and the UHS Affiliates shall turn over to C/HCA the proceeds of any award (or payment made pending the making of the award) already received by the UHS Affiliates to the extent not retained by the UHS Affiliates.

All insurance proceeds attributable to the damage, destruction, or casualty loss of any of the assets other than the UHS Real Property prior to the Hospital Closing Date not retained by the UHS Affiliates and UHS of Delaware shall be assigned to C/HCA at the Hospital Closing, and the Cash Deposit shall be increased by an amount equal to the deductible amount under the applicable insurance policy.

7.14 Wages and Salaries; Termination of Pension Plans. To the extent not assumed by C/HCA (as accrued and as part of the current liabilities assumed by C/HCA), the UHS Affiliates shall have paid or made arrangements satisfactory to C/HCA for the payment of all wages, salaries, pay and associated taxes, accrued to all of the UHS Hospitals' employees in respect of the UHS Assets as of the Hospital Closing. The UHS Affiliates shall have made arrangements according to the provisions of the UHS pension and retirement plans and in accordance with ERISA for the payment of all amounts under such plans required to be distributed to the UHS Hospitals' employees in respect of pension and retirement plans and shall have

delivered to C/HCA a form of the letter which the UHS Affiliates shall distribute to the UHS Hospitals' employees notifying such employees of their rights in respect of such pension and retirement plans.

7.15 Environmental Report. An engineering firm selected by C/HCA to perform a Phase I environmental assessment on the UHS Hospitals (at the sole cost and expense of C/HCA) shall have delivered a Phase I Environmental Site Assessment Report to C/HCA with respect to the UHS Assets, including the UHS Real Property, and the scope, findings and conclusions of such report shall have been reasonably satisfactory to C/HCA.

7.16 DSWOP Covenants. All restrictive covenants imposed upon the UHS Leased Property by Dallas Southwest Osteopathic Physicians ("DSWOP") which exist of record (or otherwise) shall have been modified in accordance with Schedule 7.16 or released to the satisfaction of C/HCA. Additionally, the executed amendments to existing agreements between DSWOP and Dallas Family Hospital, Inc. (as described on Schedule 7.16) (the "Amendments") shall not have been modified, amended or rescinded in any manner whatsoever (unless approved by C/HCA) and evidence of all appropriate legal authorization or ratification of the execution of such Amendments (and the continuing effectiveness thereof) shall have been delivered to C/HCA's satisfaction.

7.17 DSWOP Lease and Consents. The real property lease with DSWOP relating to the UHS Leased Property, as modified (as attached to Schedule 7.16), shall have been assigned to C/HCA without further modification and DSWOP shall execute an estoppel certificate in connection therewith. The sale of Unit II-100 by the UHS Affiliates to C/HCA shall have been consented to, or so long as the UHS Affiliates have diligently pursued obtaining such consent and such consent has not been obtained, the

UHS Affiliates have otherwise provided C/HCA with the economic benefit and substantially similar use, possession and occupancy of Unit II-100 as the UHS Affiliates currently have pursuant to terms that are satisfactory to C/HCA, in compliance with all Laws and any rules and regulations of any condominium association, governing board or other group who has control over the operation and ownership issues associated with the medical office building.

7.18 Conveyance by UHS of Delaware. No facts or circumstances shall be known to exist and no notices shall have been received by C/HCA, the UHS Group or the UHS Affiliates or UHS of Delaware to the effect that indicate that the transfer of the UHS Assets through UHS of Delaware to C/HCA is likely to result in any Losses (defined herein) which would not have been incurred but for the involvement of UHS of Delaware in the transaction.

7.19 Data Processing Agreement. C/HCA shall have agreed with UHS as to the provision by UHS of laboratory services, data processing services and computers, computer hardware and software after the Hospital Closing Date at the UHS Hospitals.

7.20 Hyperbaric Chamber. C/HCA shall have agreed with UHS as to the assumption of or otherwise have mutually agreed with UHS as to the manner in which UHS will perform its obligations under the Contract.

7.21 Underground Storage Tank. C/HCA shall be reasonably satisfied with the condition and compliance with applicable laws of the USTs located at the UHS Hospitals. In connection therewith, C/HCA shall be permitted (at its sole cost and expense) to complete prior to the Hospital Closing such further investigations with respect to said USTs and surrounding soils.

## 8. Joint Covenants.

8.1 Access to Books and Records. Following the Hospital Closing, each party hereto shall permit each other party, its affiliates and representatives and taxing authorities, (including, without limitation, their counsel and auditors), during normal business hours, to have reasonable access to, and examine and make copies of, all books and records of such other party, which related to events occurring prior to the Hospital Closing or events required in order to audit reports or maintain or defend positions in connection with any investigation, liquidation or proceeding ("Material Records"). For a period of two years after the Hospital Closing Date, each party agrees to maintain the Material Records in accordance with applicable law and requirements of relevant insurance carriers, all in a manner consistent with the maintenance of patient records.

8.2 Allocation of Consideration. The consideration for the UHS Assets and the C/HCA Assets shall be allocated in its entirety by mutual agreement of the parties and as required by Section 1060 of the Code and Treasury Regulations promulgated thereunder. The parties shall file all information and tax returns (and any amendments thereto) in a manner consistent with such allocation.

## 9. Certain Actions After the Closing.

9.1 UHS to Act as Agent for C/HCA. (a) This Agreement shall not constitute an agreement to assign any contract right included among the C/HCA Assets if any attempted assignment of the same without the consent of the other party thereto would constitute a breach thereof or in any way adversely affect the rights of C/HCA thereunder. If such consent is not obtained or if any attempted assignment would be ineffective or would adversely affect C/HCA's rights thereunder so that UHS Sub would



not in fact receive all such rights, then C/HCA shall cooperate with UHS Sub in any reasonable arrangement in order to obtain for UHS Sub the benefits thereunder, including the enforcement of any and all rights of C/HCA arising out of any breach or cancellation by any other party thereto. If after the Hospital Closing Date, any previously unobtained consent shall be obtained, UHS Sub shall assume such contract and C/HCA shall be deemed to have assigned it to UHS Sub as of the Hospital Closing Date. Notwithstanding any of the foregoing provisions, all expenses and liabilities arising after the Hospital Closing Date pursuant to any contract as to which a necessary consent shall have not been obtained but the benefits of which are accepted by UHS Sub shall be for the account of UHS Sub, and C/HCA shall be promptly reimbursed by UHS Sub for any expenses or liabilities which C/HCA may be required to pay with respect thereto. Anything in this Section to the contrary, UHS Sub may elect not to proceed with the transactions contemplated hereby if any contract is not assigned to it with the requisite consent.

(b) Delivery of Property Received by C/HCA, the UHS Group or the UHS Affiliates After the Hospital Closing. From and after the Hospital Closing, the UHS Group shall have the right and authority to collect, for the account of the UHS Group, all assets which shall be transferred or are intended to be transferred to the UHS Group as part of the C/HCA Assets as provided in this Agreement. C/HCA agrees that it will transfer or deliver to the UHS Group, promptly after the receipt thereof, any cash or other property which C/HCA receives after the Hospital Closing Date in respect of any assets transferred or intended to be transferred to the UHS Group as part of the C/HCA Assets under this Agreement and shall cooperate in endorsing to the UHS Group any checks or drafts received by the UHS Group which

relate to the C/HCA Assets. In addition, the UHS Group and the UHS Affiliates agree that they will transfer or deliver to C/HCA, promptly after receipt thereof, any cash or other property which the UHS Group or the UHS Affiliates receive after the Hospital Closing Date in respect of any assets not transferred or intended to be transferred to the UHS Group as part of the C/HCA Assets under this Agreement.

(c) Payment of Liabilities. Following the Hospital Closing Date C/HCA agrees to discharge in accordance with their terms the C/HCA Assumed Liabilities and the C/HCA Excluded Liabilities, respectively. As used herein, "C/HCA Assumed Liabilities" means those liabilities of the UHS Affiliates that are included within the definition of Assumed Liabilities herein and have been assumed by C/HCA according to the terms of this Agreement.

9.2 C/HCA to Act as Agent for the UHS Affiliates and UHS of Delaware.

(a) This Agreement shall not constitute an agreement to assign any contract right included among the Assets if any attempted assignment of the same without the consent of the other party thereto would constitute a breach thereof or in any way adversely affect the rights of the UHS Affiliates or UHS of Delaware thereunder. If such consent is not obtained or if any attempted assignment would be ineffective or would adversely affect the UHS Affiliates' rights thereunder so that C/HCA would not in fact receive all such rights, then the UHS Affiliates shall cooperate with C/HCA in any reasonable arrangement in order to obtain for C/HCA the benefits thereunder, including the enforcement of any and all rights of the UHS Affiliates arising out of any breach or cancellation by any other party thereto. If after the Hospital Closing Date, any previously unobtained consent shall be obtained, C/HCA shall assume such contract and the UHS Affiliates shall be deemed to have assigned it

to C/HCA as of the Hospital Closing Date. Notwithstanding any of the foregoing provisions, all expenses and liabilities arising after the Hospital Closing Date pursuant to any contract as to which a necessary consent shall have not been obtained but the benefits of which are accepted by C/HCA shall be for the account of C/HCA, and the UHS Affiliates shall be promptly reimbursed by C/HCA for any expenses or liabilities which the UHS Affiliates may be required to pay with respect thereto. Anything in this Section to the contrary, C/HCA may elect not to proceed with the transactions contemplated hereby, if any contract is not assigned to it with the requisite consent.

(b) Delivery of Property Received by the UHS Affiliates, UHS or C/HCA After the Hospital Closing. From and after the Hospital Closing, C/HCA shall have the right and authority to collect, for the account of C/HCA, all assets which shall be transferred or are intended to be transferred to C/HCA as part of the UHS Assets as provided in this Agreement. The UHS Affiliates and UHS of Delaware agree that they will transfer or deliver to C/HCA, promptly after the receipt thereof, any cash or other property which the UHS Affiliates and UHS of Delaware receive after the Hospital Closing Date in respect of any assets transferred or intended to be transferred to C/HCA as part of the UHS Assets under this Agreement and shall cooperate in endorsing to C/HCA any checks or drafts received by C/HCA which relate to the UHS Assets. In addition, C/HCA agrees that it will transfer or deliver to the UHS Affiliates, promptly after receipt thereof, any cash or other property which C/HCA receives after the Hospital Closing Date in respect of any assets not transferred or intended to be transferred to C/HCA as part of the UHS Assets under this Agreement.

(c) Payment of Liabilities. Following the Hospital Closing Date the UHS Affiliates agree to discharge in accordance with their terms the UHS Assumed

Liabilities and the UHS Excluded Liabilities, respectively. As used herein, "UHS Assumed Liabilities" means those liabilities of C/HCA that are included within the definition of Assumed Liabilities herein and have been assumed by UHS Sub according to the terms of the Agreement.

(d) Conveyance Restriction. The UHS Group, the UHS Affiliates and UHS of Delaware agree that for a period of ten years from the Hospital Closing Date, without the prior consent of the Federal Trade Commission, the UHS Group, the UHS Affiliates and UHS of Delaware will not reconvey the C/HCA Assets to anyone, other than an affiliate of UHS, who operates an acute care hospital in Richmond and Columbia Counties, Georgia or Aiken County, South Carolina.

10. Survival of Representations; Indemnification.

10.1 Survival of Representations, Etc. All representations and warranties contained in this Agreement shall survive the Hospital Closing and shall remain in full force and effect until the expiration of three years from the Hospital Closing Date, and, thereafter, in any case, to the extent a claim is made prior to such expiration with respect to any breach of such representation or warranty until such claim is finally determined or settled; provided, however, that (i) the representations and warranties of C/HCA contained in Sections 3.14, 3.17, 3.18, 3.19, 3.20 and 3.24 of this Agreement and the representations and warranties of the UHS Group, the UHS Affiliates and UHS of Delaware contained in Sections 4.14, 4.17, 4.18, 4.19, 4.20 and 4.24 shall remain in full force and effect until the expiration of the applicable statute of limitations and (ii) the representations and warranties of C/HCA contained in Sections 3.2 and 3.6(b) of this Agreement and the representations and warranties of the UHS Group, the UHS

Affiliates and UHS of Delaware contained in Sections 4.2 and 4.6(b) shall survive indefinitely.

10.2 Indemnification by C/HCA. C/HCA shall defend and indemnify UHS, UHS Sub, the UHS Affiliates and UHS of Delaware and hold UHS, UHS Sub, the UHS Affiliates and UHS of Delaware, their respective officers, directors, employees and agents, successors and assigns (collectively all such parties the "UHS Indemnified Persons"), wholly harmless from and against any and all losses, liabilities, damages, costs (including, without limitation, court costs and costs of appeal) and expenses (including, without limitation, reasonable attorneys' fees) (collectively, "Losses") that the UHS Indemnified Persons incur as a result of, or with respect to:

(a) any material inaccuracy in or material breach of any representation or warranty, or any failure to substantially fulfill the obligations of any covenant or agreement of C/HCA contained in this Agreement to the extent the UHS Indemnified Persons suffer damage by reason of such breach;

(b) except as expressly assumed by the UHS Group under this Agreement and except for claims, causes of action, liabilities or obligations relating to the condition of the C/HCA Assets or relating to environmental matters, any claim or cause of action against or liability or obligation (actual or alleged), of any nature whatsoever of C/HCA arising out of or relating to the use or operation of the C/HCA Hospitals or any other business of C/HCA prior to the Hospital Closing Date, or any act or omission of C/HCA, or any of their agents, employees, or officers, occurring prior to the Hospital Closing Date, including, without limitation, any claim or cause of action arising out of or relating to any act of malpractice occurring prior to or on the Hospital Closing Date.

10.3 Indemnification by the UHS Group, the UHS Affiliates and UHS of Delaware. UHS, UHS Sub, the UHS Affiliates and UHS of Delaware, jointly and severally, shall defend and indemnify C/HCA and hold C/HCA, its officers, directors, employers and agents, successors and assigns (collectively, all such parties the "C/HCA Indemnified Persons") wholly harmless from and against any and all losses that the C/HCA Indemnified Persons incur as a result of, or with respect to:

(a) any material inaccuracy in or material breach of any representation or warranty, or any failure to substantially fulfill the obligations of any covenant or agreement of UHS, UHS Sub, the UHS Affiliates or UHS of Delaware contained in this Agreement to the extent the C/HCA Indemnified Persons suffer damage by reason of such breach;

(b) except as expressly assumed by C/HCA under this Agreement and except for claims, causes of action, liabilities or obligations relating to the condition of the UHS Assets or relating to environmental matters, any claim or cause of action against or liability or obligation (actual or alleged), of any nature whatsoever of UHS, UHS Sub, the UHS Affiliates or UHS of Delaware arising out of or relating to the use, operation or ownership of the UHS Hospitals or any other business of the UHS Affiliates or UHS of Delaware prior to the Hospital Closing Date, or any act or omission of the UHS Affiliates, or any of their agents, employees, or officers, occurring prior to the Hospital Closing Date, including, without limitation, any claim or cause of action arising out of or relating to any act of malpractice occurring prior to or on the Hospital Closing Date.

(c) any Loss solely caused by the transfer of the UHS Assets to UHS of Delaware by the UHS Affiliates prior to the transfer of the UHS Assets by UHS

of Delaware to C/HCA which would not have been incurred but for the involvement of UHS of Delaware in the transaction.

(d) any Losses arising out of the ongoing sales tax audit at the California Hospital for periods prior to the Hospital Closing Date.

10.4 Procedure for Indemnification. The following procedure shall apply with respect to any claims or proceedings covered by the foregoing agreements to indemnify and hold harmless:

(i) The party who is seeking indemnification (the "Claimant") shall give written notice to the party from whom indemnification is sought (the "Indemnitor") promptly after the Claimant learns of the claim or proceeding (with respect to breaches of representations and warranties only) but not later than the period after the Hospital Closing Date (if any) specified in Section 10.1 hereof; provided that the failure to give such notice shall not relieve the Indemnitor of its obligations hereunder if the Claimant uses its best efforts to mitigate Claimant's damages, except to the extent it is actually damaged thereby.

(ii) With respect to any third-party claims or proceedings as to which the Claimant is entitled to indemnification, the Indemnitor shall have the right to select and employ counsel of its own choosing to defend against any such claim or proceeding, to assume control of the defense of such claim or proceeding, and to compromise, settle or otherwise dispose of the same, if the Indemnitor deems it advisable to do so, all at the expense of the Indemnitor; provided, however that the Claimant may also employ counsel, of its own choosing, at its sole expense. The parties will

fully cooperate in any such action, and shall make available to each other any books or records useful for the defense of any such claim or proceeding. The Claimant may elect to participate in the defense of any such third party claim, and may, at its sole expense, retain separate counsel in connection therewith. Subject to the foregoing the Claimant shall not settle or compromise any such third party claim without the prior consent of the Indemnitor, which consent shall not be unreasonably withheld.

#### 10.5 Limitations on Indemnification Rights.

Indemnification shall be due only to the extent of the loss or damage actually suffered (i.e., reduced by any offsetting or related asset or service received and by any recovery from any third party, such as an insurer). No claim for indemnification for breach of any representation or warranty (but not claims under Section 10.2(b), 10.3(b) or 10.3(c) by Claimant under this Agreement) may be made more than three years after the Hospital Closing Date, except that any claim or breach of the representations or covenants contained in Sections 3.14, 3.17, 3.18, 3.19, 3.20, 3.24, 4.14, 4.17, 4.18, 4.19, 4.20, and 4.24 may be made within six months of expiration of statute of limitations.

#### 11. Entire Agreement; Modification, Waiver.

This Agreement and its Schedules and Exhibits constitutes the entire agreement between the parties pertaining to the subject matter contained in it and supersedes all prior and contemporaneous agreements, representations, and understandings of the parties. No supplement, modification, or amendment of this Agreement will be binding unless executed in writing by all of the parties. No waiver of any of the



provisions of this Agreement will be deemed, or will constitute, a waiver of any other provisions, whether or not similar, nor will any waiver constitute a continuing waiver. No waiver will be binding unless executed in writing by the party making the waiver.

12. Expenses.

The parties shall each bear their respective legal, accounting and other expenses in connection with the transactions contemplated hereby whether or not the transaction is consummated.

13. Further Assurances.

The parties from time to time will execute and deliver such additional documents and instruments and take such additional actions as may be necessary to carry out the transactions contemplated by the Agreement.

14. Successors and Assigns; Assignment.

This Agreement will be binding on, and inure to the benefit of, the parties hereto and their respective heirs, legal representatives, successors and assigns.

15. Notices.

All notices, requests, demands and other communications required or permitted to be given or made under this Agreement will be in writing and will be delivered personally or will be sent postage prepaid by United States registered or certified mail, return receipt requested or by overnight courier service as follows:

- (a) To C/HCA at:  
Columbia/HCA Healthcare Corporation  
One Park Plaza  
Nashville, Tennessee 37202  
Attention: Senior Vice President Development  
Facsimile Number: 615/320-2137

with a copy to:

Legal Department  
Columbia/HCA Healthcare Corporation

One Park Plaza  
Nashville, Tennessee 37203  
Attention: General Counsel  
Facsimile Number: 615/320-2598

- (b) To UHS, UHS Sub, UHS Affiliates or UHS of Delaware at:  
Universal Health Services, Inc.  
Universal Corporate Center  
367 South Gulph Road  
King of Prussia, Pennsylvania 19406  
Attention: President  
Facsimile Number: 610/768-3318  
with a copy to:

Universal Health Services, Inc.  
Universal Corporate Center  
367 South Gulph Road  
King of Prussia, Pennsylvania 19406  
Attention: General Counsel  
Facsimile Number:

16. Governing Law.

This Agreement will be construed in accordance with, and governed by, the laws of the State of South Carolina.

IN WITNESS WHEREOF, the parties have executed this Agreement as of  
March 16, 1995.

UNIVERSAL HEALTH SERVICES, INC.

By: Steve Filton  
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Steve Filton

AIKEN REGIONAL MEDICAL CENTERS, INC.

By: Steve Filton  
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Steve Filton

DALLAS FAMILY HOSPITAL, INC.

By: Steve Filton  
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Steve Filton

WESTLAKE FAMILY HOSPITAL, INC.

By: Steve Filton  
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Steve Filton

UHS OF DELAWARE, INC.

By: Steve Filton  
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Steve Filton

C/HCA DEVELOPMENT, INC.

By: Joseph D. Moore  
-----  
Joseph D. Moore  
Senior Vice President

## GUARANTEE

Universal Health Services, Inc., a Delaware corporation, hereby unconditionally guarantees all obligations of Dallas Family Hospital, Inc., Westlake Medical Center, Inc., Aiken Regional Medical Centers, Inc. and UHS of Delaware, Inc. hereunder. In case of any breach by Dallas Family Hospital, Inc., Westlake Medical Center, Inc., Aiken Regional Medical Centers, Inc. and UHS of Delaware, Inc. of their obligations hereunder, C/HCA may proceed without notice against UHS immediately without first proceeding against Dallas Family Hospital, Inc., Westlake Medical Center, Inc., Aiken Regional Medical Centers, Inc. and UHS of Delaware, Inc.

UNIVERSAL HEALTH SERVICES, INC.

By: Steve Filton

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Steve Filton

March 16, 1995

## GUARANTEE

HCA - Hospital Corporation of America, a Delaware corporation, hereby unconditionally guarantees all obligations of C/HCA Development, Inc. hereunder to the same extent if HCA - Hospital Corporation of America is a party hereto. In case of any breach by C/HCA Development, Inc. of its obligations hereunder, UHS, the UHS Affiliates and UHS of Delaware may proceed without notice against HCA-Hospital Corporation of America immediately without first proceeding against C/HCA Development, Inc.

HCA - HOSPITAL CORPORATION OF AMERICA

By: Joseph D. Moore

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Joseph D. Moore  
Senior Vice President

March 16, 1995

## EXHIBIT A

## CONFIDENTIALITY OBLIGATIONS

Until the Hospital Closing Date, each party shall keep all information obtained from any other party either before or after the date of this Agreement confidential, and no party shall reveal such information to, nor produce copies of any written information for, any person outside its management group or its professional advisors without the prior written consent of the other parties, unless such party is compelled to disclose such information by judicial or administrative process or by any other requirements of Law. If the transactions contemplated by this Agreement should fail to close for any reason, each party shall return to the original provider as soon as practicable all originals and copies of written information provided to such party by or on behalf of any other party and none of such information shall be used by any party, or their employees, agents or representatives in the business operations of any party. Notwithstanding the foregoing, each party's obligations hereunder shall not apply to any information or document which is or becomes available to the public other than as a result of a disclosure by such party in violation of this Agreement or other obligation of confidentiality under which such information may be held or becomes available to the party on a non-confidential basis from a source other than such other party or its officers, directors, employees, representatives or agents. The parties' obligations hereunder shall survive the termination of this Agreement.

April 28, 1995

Universal Health Services, Inc.  
Attention: President  
Universal Corporate Center  
367 South Gulph Road  
King of Prussia, Pennsylvania 19406

RE: Amendment to Asset Exchange Agreement

Gentlemen:

This letter amends the Asset Exchange Agreement by and among C/HCA Development, Inc., Universal Health Services, Inc., Aiken Regional Medical Centers, Inc., Dallas Family Hospital, Inc., Westlake Medical Center, Inc., and UHS of Delaware, Inc. dated March 16, 1995, as follows:

1. The "Hospital Closing Date" as such term is defined in the Agreement shall be May 31, 1995 and the "Effective Time" as such term is defined in the Agreement shall be 12:01 a.m. on June 1, 1995.
2. The "Cash Deposit" as such term is defined in the Agreement shall mean \$45,029,155.
3. At the Hospital Closing, Schedule 1.3 shall be amended to delete therefrom "Hyperbaric chamber units".
4. At the Hospital Closing, Schedule 1.2 shall be amended to add thereto "Hyperbaric chamber units relating to the California Hospital."
5. At the Hospital Closing, Schedule 4.11 shall be amended to add to the list of contracts which will be assumed the lease agreement dated as of August 22, 1994 between Westoaks Orthopaedic Medical Group, Inc. and Westlake Medical Center.

All terms left undefined herein shall have the meaning set forth in the Agreement. Other than as set forth herein the terms of the Agreement shall remain unmodified and in full force and effect.

If you are in agreement with the above amendments to the Asset Exchange Agreement, please execute this letter where indicated below.

Very truly yours,

C/HCA DEVELOPMENT, INC.

By: Joseph D. Moore

-----  
Joseph D. Moore  
Senior Vice President -  
Development

UNIVERSAL HEALTH SERVICES, INC.

By: Kirk Gorman

-----  
Title: CFO/Sr. V.P./Treasurer

AIKEN REGIONAL MEDICAL CENTERS, INC.

By: Kirk Gorman

-----  
Title: Treasurer

DALLAS FAMILY HOSPITAL, INC.

By: Kirk Gorman

-----  
Title: Treasurer

WESTLAKE MEDICAL CENTER, INC.

By: Kirk Gorman

-----  
Title: Treasurer

UHS OF DELAWARE, INC.

By: Kirk Gorman

-----  
Title: Treasurer



[LETTERHEAD OF COLUMBIA/HCA]

May 25, 1995

Universal Health Services, Inc.  
Attention: President  
Universal Corporate Center  
367 South Gulph Road  
King of Prussia, Pennsylvania 19406

RE: Amendment to Asset Exchange Agreement

Gentlemen:

This letter amends the Asset Exchange Agreement by and among C/HCA Development, Inc., Universal Health Services, Inc., Aiken Regional Medical Centers, Inc., Dallas Family Hospital, Inc., Westlake Medical Center, Inc., and UHS of Delaware, Inc. dated March 16, 1995, such that the time period stated in Section 5.9 and Section 5.10 of such agreement shall be "two (2) years from the Hospital Closing Date" in lieu of "four (4) years from the Hospital Closing Date."

All terms left undefined herein shall have the meaning set forth in the Agreement. Other than as set forth herein the terms of the Agreement shall remain unmodified and in full force and effect.

If you are in agreement with the above amendments to the Asset Exchange Agreement, please execute this letter where indicated below.

Very truly yours,

C/HCA DEVELOPMENT, INC.

By: Joseph D. Moore

-----  
Joseph D. Moore  
Senior Vice President -  
Development

UNIVERSAL HEALTH SERVICES, INC.

By: Bruce Gilbert  
-----

Title: General Counsel and Secretary  
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AIKEN REGIONAL MEDICAL CENTERS, INC.

By: Bruce Gilbert  
-----

Title: Secretary  
-----

DALLAS FAMILY HOSPITAL, INC.

By: Bruce Gilbert  
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Title: Secretary  
-----

WESTLAKE MEDICAL CENTER, INC.

By: Bruce Gilbert  
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Title: Secretary  
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UHS OF DELAWARE, INC.

By: Bruce Gilbert  
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Title: Secretary  
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June 9, 1995

Universal Health Services, Inc.  
Attention: President  
Universal Corporate Center  
367 South Gulph Road  
King of Prussia, Pennsylvania 19406

RE: Amendment to Asset Exchange Agreement

Gentlemen:

This letter amends the Asset Exchange Agreement by and among C/HCA Development, Inc., Universal Health Services, Inc., Aiken Regional Medical Centers, Inc., Dallas Family Hospital, Inc., Westlake Medical Center, Inc., and UHS of Delaware, Inc. dated March 16, 1995 (the "Agreement"), the "Hospital Closing Date" as such term is defined in the Agreement shall be July 31, 1995 and the "Effective Time" as such term is defined in the Agreement shall be 12:01 a.m. on August 1, 1995.

All terms left undefined herein shall have the meaning set forth in the Agreement. Other than as set forth herein the terms of the Agreement shall remain unmodified and in full force and effect.

If you are in agreement with the above amendments to the Asset Exchange Agreement, please execute this letter where indicated below.

Very truly yours,  
C/HCA DEVELOPMENT, INC.

By: Joseph D. Moore  
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Joseph D. Moore  
Senior Vice President-Development

UNIVERSAL HEALTH SERVICES, INC.  
By: Bruce Gilbert  
-----  
Bruce Gilbert  
General Counsel and Secretary

AIKEN REGIONAL MEDICAL CENTERS, INC.

By: Bruce Gilbert  
-----  
Bruce Gilbert  
Secretary

DALLAS FAMILY HOSPITAL, INC.

By: Bruce Gilbert  
-----  
Bruce Gilbert  
Secretary

WESTLAKE MEDICAL CENTER, INC.

By: Bruce Gilbert  
-----  
Bruce Gilbert  
Secretary

UHS OF DELAWARE, INC.

By: Bruce Gilbert  
-----  
Bruce Gilbert  
Secretary