

UNIVERSAL HEALTH SERVICES INC

Form 10-Q

November 07, 2013

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(MARK ONE)

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

**For the quarterly period ended September 30, 2013**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 1-10765**

**UNIVERSAL HEALTH SERVICES, INC.**

**(Exact name of registrant as specified in its charter)**

**DELAWARE**  
 (State or other jurisdiction of  
 incorporation or organization)

**23-2077891**  
 (I.R.S. Employer  
 Identification No.)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
 Non-accelerated filer  Smaller reporting company   
 Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common shares outstanding, as of October 31, 2013:

Class A	6,595,708
Class B	90,979,808
Class C	664,000



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In this Report on Form 10-Q for the quarterly period ended September 30, 2013, we, us, our and the Company refer to Universal Health Services, Inc. and its subsidiaries. UHS is a registered trademark of UHS of Delaware, Inc., the management company for, and a wholly-owned subsidiary of Universal Health Services, Inc. Universal Health Services, Inc. is a holding company and operates through its subsidiaries including its management company, UHS of Delaware, Inc. All healthcare and management operations are conducted by subsidiaries of Universal Health Services, Inc. To the extent any reference to UHS or UHS facilities in this report including letters, narratives or other forms contained herein relates to our healthcare or management operations it is referring to Universal Health Services, Inc.'s subsidiaries including UHS of Delaware, Inc. Further, the terms we, us, our or the Company in such context similar refer to the operations of Universal Health Services Inc.'s subsidiaries including UHS of Delaware, Inc. Any reference to employees or employment contained herein refers to employment with or employees of the subsidiaries of Universal Health Services, Inc. including UHS of Delaware, Inc.



Table of Contents**PART I. FINANCIAL INFORMATION****UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(amounts in thousands, except per share amounts)

(unaudited)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net revenues before provision for doubtful accounts	\$ 2,134,740	\$ 1,869,263	\$ 6,294,750	\$ 5,718,676
Less: Provision for doubtful accounts	318,371	188,910	811,774	522,203
Net revenues	1,816,369	1,680,353	5,482,976	5,196,473
Operating charges:				
Salaries, wages and benefits	903,212	838,075	2,702,842	2,565,052
Other operating expenses	393,549	362,687	1,100,118	1,059,048
Supplies expense	206,995	191,747	613,981	594,924
Depreciation and amortization	86,971	77,032	248,465	221,807
Lease and rental expense	23,904	23,481	72,651	70,906
Electronic health records incentive income	(23,148)	(10,551)	(27,943)	(12,506)
Costs related to extinguishment of debt	0	29,170	0	29,170
	1,591,483	1,511,641	4,710,114	4,528,401
Income from operations	224,886	168,712	772,862	668,072
Interest expense, net	32,314	45,207	110,488	137,805
Income before income taxes	192,572	123,505	662,374	530,267
Provision for income taxes	69,473	42,132	241,537	188,880
Net income	123,099	81,373	420,837	341,387
Less: Income attributable to noncontrolling interests	8,512	9,556	34,625	33,402
Net income attributable to UHS	\$ 114,587	\$ 71,817	\$ 386,212	\$ 307,985
Basic earnings per share attributable to UHS	\$ 1.17	\$ 0.74	\$ 3.94	\$ 3.18

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Diluted earnings per share attributable to UHS	\$	1.15	\$	0.73	\$	3.89	\$	3.15
Weighted average number of common shares - basic		98,151		96,817		97,965		96,701
Add: Other share equivalents		1,436		794		1,158		1,010
Weighted average number of common shares and equivalents - diluted		99,587		97,611		99,123		97,711

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

Table of Contents**UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(amounts in thousands, unaudited)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income	\$ 123,099	\$ 81,373	\$ 420,837	\$ 341,387
Other comprehensive income (loss):				
Unrealized derivative gains on cash flow hedges	3,054	(45)	12,871	1,782
Amortization of terminated hedge	(84)	(84)	(252)	(252)
Other comprehensive income before tax	2,970	(129)	12,619	1,530
Income tax expense related to items of other comprehensive income	1,120	(47)	4,758	585
Total other comprehensive income, net of tax	1,850	(82)	7,861	945
Comprehensive income	124,949	81,291	428,698	342,332
Less: Comprehensive income attributable to noncontrolling interests	8,512	9,556	34,625	33,402
Comprehensive income attributable to UHS	\$ 116,437	\$ 71,735	\$ 394,073	\$ 308,930

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



Table of Contents**UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(amounts in thousands, unaudited)

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 12,122	\$ 23,471
Accounts receivable, net	1,166,514	1,067,197
Supplies	101,249	99,000
Other current assets	90,771	87,936
Deferred income taxes	132,624	104,461
Assets of facilities held for sale	0	25,431
<b>Total current assets</b>	<b>1,503,280</b>	<b>1,407,496</b>
Property and equipment	5,610,076	5,368,345
Less: accumulated depreciation	(2,185,175)	(1,986,110)
	3,424,901	3,382,235
Other assets:		
Goodwill	3,039,169	3,036,765
Deferred charges	62,619	75,888
Other	321,774	298,459
	<b>\$ 8,351,743</b>	<b>\$ 8,200,843</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 88,292	\$ 2,589
Accounts payable and accrued liabilities	926,768	889,557
Liabilities of facilities held for sale	0	850
Federal and state taxes	9,257	1,062
<b>Total current liabilities</b>	<b>1,024,317</b>	<b>894,058</b>
Other noncurrent liabilities	320,214	395,355
Long-term debt	3,411,635	3,727,431
Deferred income taxes	215,026	183,747
Redeemable noncontrolling interests	218,080	234,303

Equity:		
UHS common stockholders equity	3,110,778	2,713,345
Noncontrolling interest	51,693	52,604
Total equity	3,162,471	2,765,949
	\$ 8,351,743	\$ 8,200,843

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

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

(amounts in thousands, unaudited)

	<b>Nine months ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 420,837	\$ 341,387
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation & amortization	248,648	227,641
Stock-based compensation expense	20,072	16,189
Gains on sales of assets and businesses, net of losses	(2,973)	(945)
Costs related to extinguishment of debt	0	29,170
<i>Changes in assets &amp; liabilities, net of effects from acquisitions and dispositions:</i>		
Accounts receivable	(99,261)	(86,821)
Accrued interest	10,376	11,901
Accrued and deferred income taxes	20,918	(260)
Other working capital accounts	10,313	(42,916)
Other assets and deferred charges	13,425	25,959
Other	5,792	5,833
Accrued insurance expense, net of commercial premiums paid	(1,406)	66,752
Payments made in settlement of self-insurance claims	(55,009)	(58,884)
Net cash provided by operating activities	591,732	535,006
<b>Cash Flows from Investing Activities:</b>		
Property and equipment additions, net of disposals	(279,751)	(282,191)
Proceeds received from sale of assets and businesses	37,118	56,194
Acquisition of property and businesses	(1,320)	(25,092)
Costs incurred for purchase and implementation of electronic health records application	(42,353)	(41,854)
Return of deposit on terminated purchase agreement	0	6,500
Net cash used in investing activities	(286,306)	(286,443)
<b>Cash Flows from Financing Activities:</b>		
Reduction of long-term debt	(234,231)	(1,127,829)
Additional borrowings	1,500	906,000
Financing costs	0	(8,257)
Repurchase of common shares	(22,186)	(9,676)
Dividends paid	(14,706)	(14,519)
Issuance of common stock	4,096	3,828

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Profit distributions to noncontrolling interests	(51,248)	(13,687)
Net cash used in financing activities	(316,775)	(264,140)
Decrease in cash and cash equivalents	(11,349)	(15,577)
Cash and cash equivalents, beginning of period	23,471	41,229
Cash and cash equivalents, end of period	\$ 12,122	\$ 25,652
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Interest paid	\$ 88,430	\$ 104,560
Income taxes paid, net of refunds	\$ 218,290	\$ 187,899

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

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**UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(1) General**

This Quarterly Report on Form 10-Q is for the quarterly period ended September 30, 2013. In this Quarterly Report, we, us, our and the Company refer to Universal Health Services, Inc. and its subsidiaries.

The condensed consolidated financial statements include the accounts of our majority-owned subsidiaries and partnerships and limited liability companies controlled by us, or our subsidiaries, as managing general partner or managing member. The condensed consolidated financial statements included herein have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ) and reflect all adjustments (consisting only of normal recurring adjustments) which, in our opinion, are necessary to fairly state results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although we believe that the accompanying disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements, significant accounting policies and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012.

**(2) Relationship with Universal Health Realty Income Trust and Related Party Transactions**

***Relationship with Universal Health Realty Income Trust:***

At September 30, 2013, we held approximately 6.2% of the outstanding shares of Universal Health Realty Income Trust (the Trust ). We serve as Advisor to the Trust under an annually renewable advisory agreement pursuant to the terms of which we conduct the Trust 's day-to-day affairs, provide administrative services and present investment opportunities. In addition, certain of our officers and directors are also officers and/or directors of the Trust. Management believes that it has the ability to exercise significant influence over the Trust, therefore we account for our investment in the Trust using the equity method of accounting. We earned an advisory fee from the Trust, which is included in net revenues in the accompanying condensed consolidated statements of income, of \$603,000 and \$540,000 during the three-month periods ended September 30, 2013 and 2012, respectively, and \$1.8 million and \$1.6 million during the nine-month periods ended September 30, 2013 and 2012, respectively. Our pre-tax share of income from the Trust was \$86,000 and \$31,000 for the three-month periods ended September 30, 2013 and 2012, respectively, and \$599,000 and \$922,000 for the nine-month periods ended September 30, 2013 and 2012, respectively. The carrying value of this investment was \$8.4 million and \$9.3 million at September 30, 2013 and December 31, 2012, respectively, and is included in other assets in the accompanying condensed consolidated balance sheets. The market value of this investment, based on the closing price of the Trust 's stock on the respective dates, was \$33.0 million at September 30, 2013 and \$39.9 million at December 31, 2012.

Total rent expense under the operating leases on the hospital facilities with the Trust was \$4.0 million and \$4.1 million during the three-month periods ended September 30, 2013 and 2012, respectively, and \$12.0 million and \$12.2 million for the nine month periods ended September 30, 2013 and 2012, respectively. In addition, certain of our subsidiaries are tenants in several medical office buildings owned by limited liability companies in which the Trust holds either 100% ownership interests or non-controlling majority ownership interests.

The table below details the renewal options and terms for each of our four hospital facilities leased from the Trust:

<b>Hospital Name</b>	<b>Type of Facility</b>	<b>Annual Minimum Rent</b>	<b>End of Lease Term</b>	<b>Renewal Term (years)</b>
McAllen Medical Center	Acute Care	\$ 5,485,000	December, 2016	15(a)
Wellington Regional Medical Center	Acute Care	\$ 3,030,000	December, 2016	15(b)
Southwest Healthcare System, Inland Valley Campus	Acute Care	\$ 2,648,000	December, 2016	15(b)
The Bridgeway	Behavioral Health	\$ 930,000	December, 2014	10(c)

- (a) We have three 5-year renewal options at existing lease rates (through 2031).
- (b) We have one 5-year renewal option at existing lease rates (through 2021) and two 5-year renewal options at fair market value lease rates (2022 through 2031).
- (c) We have two 5-year renewal options at fair market value lease rates (2015 through 2024).

***Other Related Party Transactions:***

In December, 2010, our Board of Directors approved the Company's entering into supplemental life insurance plans and agreements on the lives of our chief executive officer and his wife. As a result of these agreements, based on actuarial tables and other

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assumptions, during the life expectancies of the insureds, we would pay approximately \$25 million in premiums and certain trusts, owned by our chief executive officer, would pay approximately \$8 million in premiums. Based on the projected premiums mentioned above, and assuming the policies remain in effect until the death of the insureds, we will be entitled to receive death benefit proceeds of no less than \$33 million representing the \$25 million of aggregate premiums paid by us as well as the \$8 million of aggregate premiums paid by the trusts. These agreements did not have a material effect on our consolidated financial statements or results of operations during 2012 or the first nine months of 2013.

A member of our Board of Directors and member of the Executive Committee is Of Counsel to the law firm used by us as our principal outside counsel. This Board member is also the trustee of certain trusts for the benefit of our Chief Executive Officer ( CEO ) and his family. This law firm also provides personal legal services to our CEO.

**(3) Other Noncurrent liabilities and Redeemable/Noncontrolling Interests**

Other noncurrent liabilities include the long-term portion of our professional and general liability, workers compensation reserves, pension liability, and interest rate swaps.

Outside owners hold noncontrolling, minority ownership interests of: (i) approximately 28% in our five acute care facilities located in Las Vegas, Nevada; (ii) 20% in an acute care facility located in Washington, D.C.; (iii) approximately 11% in an acute care facility located in Laredo, Texas, and; (iv) 20% in a behavioral health care facility located in Philadelphia, Pennsylvania. The redeemable noncontrolling interest balances of \$218 million and \$234 million as of September 30, 2013 and December 31, 2012, respectively, and the noncontrolling interest balances of \$52 million and \$53 million as of September 30, 2013 and December 31, 2012, respectively, consist primarily of the third-party ownership interests in these hospitals.

In connection with the five acute care facilities located in Las Vegas, Nevada, the minority ownership interests of which are reflected as redeemable noncontrolling interests on our Consolidated Balance Sheet, the outside owners have certain put rights, that are currently exercisable, that if exercised, require us to purchase the minority member's interests at fair market value. The put rights are exercisable upon the occurrence of: (i) certain specified financial conditions falling below established thresholds; (ii) breach of the management contract by the managing member (a subsidiary of ours), or; (iii) if the minority member's ownership percentage is reduced to less than certain thresholds. In connection with the behavioral health care facility located in Philadelphia, Pennsylvania, the minority ownership interest of which is also reflected as redeemable noncontrolling interests on our Consolidated Balance Sheet, the outside owner has a put option to put its entire ownership interest to us at any time. If exercised, the put option requires us to purchase the minority member's interest at fair market value. As of September 30, 2013, we believe the fair market value of the minority ownership interests in these facilities approximates the book value of the redeemable noncontrolling interests.

**(4) Long-term debt and cash flow hedges***Debt:*

On May 16, 2013, we entered into a third amendment (the Third Amendment) to the credit agreement, dated as of November 15, 2010 (as amended from time to time, the Credit Agreement), which became effective that day, among UHS, the several banks and other financial institutions from time to time parties thereto, JPMorgan Chase Bank, N.A., as administrative agent and the other agents party thereto. The Third Amendment provides for a reduction in the interest rates payable in connection with certain borrowings under the Credit Agreement. Upon the effectiveness of the Third Amendment, UHS replaced its existing \$745.9 million senior secured Tranche B term loan with a new

senior secured Tranche B-1 term loan in the same amount on substantially the same terms as the Tranche B term loan, other than lower interest rates. Borrowings under the Tranche B-1 term loan bear interest at a rate per annum equal to, at our election, one, two, three or six month LIBOR, plus an applicable margin of 2.25% or ABR plus an applicable margin of 1.25%. The minimum ABR and LIBOR rates for the Tranche B term loan of 2.0% and 1.0%, respectively, were eliminated.

In September, 2012, we entered into a second amendment ( Second Amendment ) to our Credit Agreement which provided for: (i) a new \$900 million Term Loan-A ( Term Loan A2 ) at the same interest rates as our existing Term Loan A and a final maturity date of August 15, 2016; (ii) the extension of the maturity date on a substantial portion of our \$800 million revolving credit facility commitment with \$777 million of the commitment extended to mature on August 15, 2016 and the remaining \$23 million commitment scheduled to mature on November 15, 2015 (there were no borrowings outstanding pursuant to our revolving credit facility as of September 30, 2013), and; (iii) the extension of the maturity date on a substantial portion of our Term Loan-A borrowings which, based upon the outstanding Term Loan-A borrowings as of September 30, 2013, \$907 million is scheduled to mature on August 15, 2016 and the remaining \$44 million is scheduled to mature on November 15, 2015. The Second Amendment also provides for increased flexibility for refinancing and certain other modifications but substantially all other terms of the Credit Agreement remain unchanged.

In September, 2012, we used \$700 million of the proceeds from the new Term Loan A2 facility to extinguish a portion of our higher priced, Term Loan-B facility. Pricing under the new Term Loan A2 facility was 1% lower than the Term Loan-B facility and did not include a LIBOR Floor whereas, at that time, the Term Loan-B facility had a 1% LIBOR Floor (which has since been eliminated as



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part of the above-mentioned Third Amendment in May, 2013). During the third quarter of 2012, in connection with the extinguishment of a portion of our Term Loan-B facility, we recorded a pre-tax charge of \$29 million to write-off the related portion of the Term Loan-B deferred financing costs.

The Credit Agreement, as amended, is a senior secured facility which provided for an initial aggregate commitment amount of \$3.43 billion, comprised of an \$800 million revolving credit facility, a \$988 million Term Loan-A facility, a \$746 million Term Loan-B facility and a \$900 million Term Loan-A2 facility. The revolving credit facility includes a \$125 million sub-limit for letters of credit. The Credit Agreement is secured by substantially all of the assets of the Company and our material subsidiaries and guaranteed by our material subsidiaries.

Borrowings under the Credit Agreement bear interest at either (1) the ABR rate which is defined as the rate per annum equal to, at our election: the greatest of (a) the lender's prime rate, (b) the weighted average of the federal funds rate, plus 0.5% and (c) one month LIBOR rate plus 1%, in each case, plus an applicable margin based upon our consolidated leverage ratio at the end of each quarter ranging from 0.50% to 1.25% for revolving credit, Term Loan-A and Term Loan-A2 borrowings and 1.25% for Term Loan B borrowings or (2) the one, two, three or six month LIBOR rate (at our election), plus an applicable margin based upon our consolidated leverage ratio at the end of each quarter ranging from 1.50% to 2.25% for revolving credit, Term Loan-A and Term Loan-A2 borrowings and 2.25% for Term Loan-B borrowings. The current applicable margins are 0.75% for ABR-based loans, 1.75% for LIBOR-based loans under the revolving credit, Term Loan-A and Term Loan-A2 facilities and 2.25% under the Term Loan-B facility.

As of September 30, 2013, we had no borrowings outstanding pursuant to the terms of our \$800 million revolving credit facility and we had \$764 million of available borrowing capacity, net of \$15 million of outstanding borrowings pursuant to a short-term, on-demand credit facility and \$21 million of outstanding letters of credit. The outstanding borrowings under the short-term, on-demand credit facility as of September 30, 2013 are classified as current maturities of long-term on our Consolidated Balance Sheet as of that date.

During the first nine months of 2013, we made scheduled principal payments of \$54 million on the Term Loan-A and Term Loan A2 facilities. Quarterly installment payments ( Installment Payments ) are due on the Term Loan-A and Term Loan-A2 facilities which, during 2013 and 2014, approximate \$18 million during the remaining three months of 2013 and \$72 million in 2014. No Installment Payments are due on the Term Loan-B facility. The Installment Payments due on the Term Loan-A and Term Loan-A2 facilities during the remainder of 2013 and the first nine months of 2014 are classified as current maturities of long-term debt on our Consolidated Balance Sheet as of September 30, 2013.

On October 25, 2013 our \$275 million accounts receivable securitization program ( Securitization ) with a group of conduit lenders and liquidity banks was amended to extend the maturity date to October 25, 2016 and reduce the interest rate spread and commitment fee. Substantially all of the patient-related accounts receivable of our acute care hospitals ( Receivables ) serve as collateral for the outstanding borrowings. We have accounted for this Securitization as borrowings. We maintain effective control over the Receivables since, pursuant to the terms of the Securitization, the Receivables are sold from certain of our subsidiaries to special purpose entities that are wholly-owned by us. The Receivables, however, are owned by the special purpose entities, can be used only to satisfy the debts of the wholly-owned special purpose entities, and thus are not available to us except through our ownership interest in the special purpose entities. The wholly-owned special purpose entities use the Receivables to collateralize the loans obtained from the group of third-party conduit lenders and liquidity banks. The group of third-party conduit lenders and liquidity banks do not have recourse to us beyond the assets of the wholly-owned special purpose entities that securitize the loans. At September 30, 2013, we had \$210 million of outstanding borrowings and \$65 million of additional capacity pursuant to the terms of our accounts receivable securitization program.

Our \$250 million, 7.00% senior unsecured notes (the Unsecured Notes ) are scheduled to mature on October 1, 2018. The Unsecured Notes were issued on September 29, 2010 and registered in April, 2011. Interest on the Unsecured Note is payable semiannually in arrears on April 1st and October 1st of each year. The Unsecured Notes can be redeemed in whole at anytime subject to a make-whole call at treasury rate plus 50 basis points prior to October 1, 2014. They are also redeemable in whole or in part at a price of: (i) 103.5% on or after October 1, 2014; (ii) 101.75% on or after October 1, 2015, and; (iii) 100% on or after October 1, 2016. These Unsecured Notes are guaranteed by a group of subsidiaries (each of which is a 100% directly or indirectly owned subsidiary of Universal Health Services, Inc.) which fully and unconditionally guarantee the Unsecured Notes on a joint and several basis, subject to certain customary automatic release provisions.

On June 30, 2006, we issued \$250 million of senior notes which have a 7.125% coupon rate and mature on June 30, 2016 (the 7.125% Notes ). Interest on the 7.125% Notes is payable semiannually in arrears on June 30th and December 30th of each year. In June, 2008, we issued an additional \$150 million of 7.125% Notes which formed a single series with the original 7.125% Notes issued in June, 2006. Other than their date of issuance and initial price to the public, the terms of the 7.125% Notes issued in June, 2008 are identical to and trade interchangeably with, the 7.125% Notes which were originally issued in June, 2006.

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In connection with the entering into of the Credit Agreement on November 15, 2010, and in accordance with the Indenture dated January 20, 2000 governing the rights of our existing notes, we entered into a supplemental indenture pursuant to which our 7.125% Notes (due in 2016) were equally and ratably secured with the lenders under the Credit Agreement with respect to the collateral for so long as the lenders under the Credit Agreement are so secured.

Our Credit Agreement includes a material adverse change clause that must be represented at each draw. The Credit Agreement contains covenants that include a limitation on sales of assets, mergers, change of ownership, liens and indebtedness, transactions with affiliates and dividends; and requires compliance with financial covenants including maximum leverage and minimum interest coverage ratios. We are in compliance with all required covenants as of September 30, 2013.

As of September 30, 2013, the carrying value of our debt was \$3.50 billion and the fair-value of our debt was \$3.56 billion. The fair value of our debt was computed based upon quotes received from financial institutions and we consider these to be level 2 in the fair value hierarchy as outlined in the authoritative guidance for disclosures in connection with debt instruments.

### *Cash Flow Hedges:*

We manage our ratio of fixed and floating rate debt with the objective of achieving a mix that management believes is appropriate. To manage this risk in a cost-effective manner, we, from time to time, enter into interest rate swap agreements in which we agree to exchange various combinations of fixed and/or variable interest rates based on agreed upon notional amounts. We account for our derivative and hedging activities using the Financial Accounting Standard Board's (FASB) guidance which requires all derivative instruments, including certain derivative instruments embedded in other contracts, to be carried at fair value on the balance sheet. For derivative transactions designated as hedges, we formally document all relationships between the hedging instrument and the related hedged item, as well as its risk-management objective and strategy for undertaking each hedge transaction.

Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Cash flow hedges are accounted for by recording the fair value of the derivative instrument on the balance sheet as either an asset or liability, with a corresponding amount recorded in accumulated other comprehensive income (AOCI) within shareholders' equity. Amounts are reclassified from AOCI to the income statement in the period or periods the hedged transaction affects earnings. We use interest rate derivatives in our cash flow hedge transactions. Such derivatives are designed to be highly effective in offsetting changes in the cash flows related to the hedged liability. For derivative instruments designated as cash flow hedges, the ineffective portion of the change in expected cash flows of the hedged item are recognized currently in the income statement.

For hedge transactions that do not qualify for the short-cut method, at the hedge's inception and on a regular basis thereafter, a formal assessment is performed to determine whether changes in the fair values or cash flows of the derivative instruments have been highly effective in offsetting changes in cash flows of the hedged items and whether they are expected to be highly effective in the future.

The fair value of interest rate swap agreements approximates the amount at which they could be settled, based on estimates obtained from the counterparties. We assess the effectiveness of our hedge instruments on a quarterly basis. We performed periodic assessments of the cash flow hedge instruments during 2012 and the first nine months of 2013 and determined the hedges to be highly effective. We also determined that any portion of the hedges deemed to be ineffective was de minimis and therefore there was no material effect on our consolidated financial position, operations or cash flows. The counterparties to the interest rate swap agreements expose us to credit risk in the event

of nonperformance. However, at September 30, 2013, each swap agreement entered into by us was in a net liability position which would require us to make the net settlement payments to the counterparties. We do not anticipate nonperformance by our counterparties. We do not hold or issue derivative financial instruments for trading purposes.

During the first quarter of 2011, we entered into a forward starting interest rate cap on a total notional amount of \$450 million from December, 2011 to December, 2012 reducing to \$400 million from December, 2012 to December, 2013 whereby we paid a premium of \$740,000 in exchange for the counterparty agreeing to pay the difference between 7.00% and three-month LIBOR if the three-month LIBOR rate rises above 7.00% during the term of the cap. If the three-month LIBOR does not reach 7.00% during the term of the cap, no payment is made to us.

We also entered into six additional forward starting interest rate swaps in the first quarter of 2011 whereby we pay a fixed rate on a total notional amount of \$425 million and receive three-month LIBOR. Three of these swaps with a total notional amount of \$225 million became effective in March, 2011 and will mature in May, 2015. The average fixed rate payable on these swaps is 1.91%. The three remaining interest rate swaps with total notional amounts of \$100 million, \$25 million and \$75 million became effective in December, 2011 and have/had fixed rates of 2.50%, 1.96% and 1.32%, and maturity dates in December, 2014, December, 2013 and December, 2012, respectively.

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During the fourth quarter of 2010, we entered into four forward starting interest rate swaps whereby we pay a fixed rate on a total notional amount of \$600 million and receive three-month LIBOR. Each of the four swaps became effective in December, 2011 and will mature in May, 2015. The average fixed rate payable on these swaps is 2.38%.

We measure our interest rate swaps at fair value on a recurring basis. The fair value of our interest rate swaps is based primarily on quotes from banks. We consider those inputs to be level 2 in the fair value hierarchy as outlined in the authoritative guidance for disclosures in connection with derivative instruments and hedging activities. The fair value of our interest rate swaps was an aggregate gross and net liability of \$28 million at September 30, 2013, of which \$18 million is included in accounts payable and accrued liabilities and \$10 million is included in other noncurrent liabilities on the accompanying balance sheet. The fair value of our interest rate swaps was an aggregate gross and net liability of \$41 million at December 31, 2012, substantially all of which is included in other noncurrent liabilities on the accompanying balance sheet.

**(5) Commitments and Contingencies*****Professional and General Liability, Workers Compensation Liability and Property Insurance******Professional and General Liability and Workers Compensation Liability:***

Effective January 1, 2008, most of our subsidiaries became self-insured for professional and general liability exposure up to \$10 million per occurrence. Prior to our acquisition of Psychiatric Solutions, Inc. (PSI) in November, 2010, our subsidiaries purchased several excess policies through commercial insurance carriers which provide for coverage in excess of \$10 million up to \$200 million per occurrence and in the aggregate. However, we are liable for 10% of the claims paid pursuant to the commercially insured coverage in excess of \$10 million up to \$60 million per occurrence and in the aggregate.

Prior to our acquisition in November, 2010, the PSI subsidiaries were commercially insured for professional and general liability insurance claims in excess of a \$3 million self-insured retention to a limit of \$75 million. PSI utilized its captive insurance company and that captive insurance company remains in place after our acquisition of PSI to manage the self-insured retention for all former PSI subsidiaries for claims incurred prior to January 1, 2011. The captive insurance company also continues to insure all professional and general liability claims, regardless of date incurred, for the former PSI subsidiaries located in Florida and Puerto Rico.

Since our acquisition of PSI on November 15, 2010, the former PSI subsidiaries are self-insured for professional and general liability exposure up to \$3 million per occurrence and our legacy subsidiaries (which are not former PSI subsidiaries) are self-insured for professional and general liability exposure up to \$10 million per occurrence. Effective November, 2010, our subsidiaries (including the former PSI subsidiaries) were provided with several excess policies through commercial insurance carriers which provide for coverage in excess of the applicable per occurrence self-insured retention (either \$3 million or \$10 million) up to \$200 million per occurrence and in the aggregate. We remain liable for 10% of the claims paid pursuant to the commercially insured coverage in excess of \$10 million up to \$60 million per occurrence and in the aggregate. The 9 behavioral health facilities acquired from Ascend Health Corporation in October, 2012 have general and professional liability policies through commercial insurance carriers which provide for up to \$20 million of aggregate coverage, subject to a \$10,000 per occurrence deductible. These facilities, like our other facilities, are also provided excess coverage through commercial insurance carriers for coverage in excess of the underlying commercial policy limitations up to \$200 million per occurrence and in the aggregate.

Our estimated liability for self-insured professional and general liability claims is based on a number of factors including, among other things, the number of asserted claims and reported incidents, estimates of losses for these claims based on recent and historical settlement amounts, estimates of incurred but not reported claims based on historical experience, and estimates of amounts recoverable under our commercial insurance policies. While we continuously monitor these factors, our ultimate liability for professional and general liability claims could change materially from our current estimates due to inherent uncertainties involved in making this estimate. Given our significant self-insured exposure for professional and general liability claims, there can be no assurance that a sharp increase in the number and/or severity of claims asserted against us will not have a material adverse effect on our future results of operations.

As of September 30, 2013, the total accrual for our professional and general liability claims, including the estimated claims related to the facilities acquired from PSI, was \$220 million, of which \$48 million is included in current liabilities. As of December 31, 2012, the total accrual for our professional and general liability claims, including the estimated claims related to the facilities acquired from PSI, was \$279 million, of which \$48 million is included in current liabilities.

During the second quarter of 2013, pursuant to a reserve analysis, we recorded reductions to our professional and general liability self-insurance reserves (relating to years prior to 2013) amounting to \$65 million in the aggregate. The favorable changes in our estimated future claims payments relating to years prior to 2013 were due to: (i) an increased weighting given to company-specific metrics (to 100% from 75%), and decreased general industry metrics (to 0% from 25%), related to projected incidents per exposure, historical claims experience and loss development factors; (ii) historical data which measured the realized favorable impact of medical malpractice tort reform experienced in several states in which we operate, and; (iii) a decrease in claims related to certain higher risk

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specialties (such as obstetrical) due to a continuation of the company-wide patient safety initiative undertaken during the last several years. As the number of our facilities and our patient volumes have increased, thereby providing for a statistically significant data group, and taking into consideration our long-history of company-specific risk management programs and claims experience, our reserve analyses have included a greater emphasis on our historical professional and general liability experience which has developed favorably as compared to general industry trends.

The total accrual for our workers' compensation liability claims was \$68 million as of September 30, 2013 and \$66 million as of December 31, 2012, of which \$35 million is included in current liabilities as of each date.

***Property Insurance:***

We have commercial property insurance policies covering catastrophic losses, including windstorm damage, up to a \$1 billion policy limit per occurrence, subject to a \$250,000 deductible for the majority of our properties (the properties acquired from Psychiatric Solutions, Inc. are subject to a \$50,000 deductible). Losses resulting from named windstorms are subject to deductibles between 3% and 5% of the declared total insurable value of the property. In addition, we have commercial property insurance policies covering catastrophic losses resulting from earthquake and flood damage, each subject to aggregated loss limits (as opposed to per occurrence losses). Our earthquake limit is \$250 million, subject to a deductible of \$250,000, except for facilities located within documented fault zones. Earthquake losses that affect facilities located in fault zones within the United States are subject to a \$100 million limit and will have applied deductibles ranging from 1% to 5% of the declared total insurable value of the property. The earthquake limit in Puerto Rico is \$25 million. Flood losses have either a \$250,000 or \$500,000 deductible, based upon the location of the facility. The 9 behavioral health facilities acquired from Ascend Health Corporation in October, 2012 have commercial property insurance policies which provide for full replacement cost coverage, subject to a \$10,000 deductible.

***Other***

As of September 30, 2013 and December 31, 2012, our accounts receivable includes approximately \$29 million and \$70 million, respectively, due from Illinois. Although the outstanding balance has been reduced significantly as a result of substantial cash remittances received from the state during the second quarter of 2013 (approximately \$72 million was due from Illinois as of March 31, 2013), collection of the outstanding receivables continues to be delayed due to state budgetary and funding pressures. Approximately \$10 million as of September 30, 2013 and \$51 million as of December 31, 2012, of the receivables due from Illinois were outstanding in excess of 60 days, as of each respective date. Although the remaining accounts receivable due from Illinois could remain outstanding for the foreseeable future, since we expect to eventually collect all amounts due to us, no related reserves have been established in our consolidated financial statements. However, we can provide no assurance that we will eventually collect all amounts due to us from Illinois. Failure to ultimately collect all outstanding amounts due from Illinois would have an adverse impact on our future consolidated results of operations and cash flows.

As of September 30, 2013 we were party to certain off balance sheet arrangements consisting of standby letters of credit and surety bonds which totaled \$88 million consisting of: (i) \$70 million related to our self-insurance programs, and; (ii) \$18 million of other debt and public utility guarantees.

***Legal Proceedings***

We are subject to claims and suits in the ordinary course of business, including those arising from care and treatment afforded by our hospitals and are party to litigation, as outlined below.

*Office of Inspector General ( OIG ) and Other Government Investigations*

In September, 2010, we, along with many other companies in the healthcare industry, received a letter from the United States Department of Justice ( DOJ ) advising of a False Claim Act investigation being conducted in connection with the implantation of implantable cardioverter defibrillators ( ICDs ) from 2003 to the present at several of our acute care facilities. The DOJ alleges that ICDs were implanted and billed by our facilities in contravention of a National Coverage Determination regarding these devices. We have established a reserve in connection with this matter which did not have a material impact on our consolidated financial statements.

In July, 2012, one of our subsidiaries, Peachford Behavioral Health System of Atlanta located in Atlanta, Georgia, received a subpoena from the OIG for the Department of Health and Human Services requesting various documents from 2004 to the present. We have provided all requested documents. At present, we are uncertain as to the focus, scope or extent of the investigation, liability of the facility and/or potential financial exposure, if any, in connection with this matter.

In February, 2013, the OIG served a subpoena requesting various documents from January 2008 to the present directed at Universal Health Services, Inc. ( UHS ) concerning it and UHS of Delaware, Inc., and several UHS owned facilities including: Keys of Carolina, Old Vineyard Behavioral Health, The Meadows Psychiatric Center, Streamwood Behavioral Health, Hartgrove Hospital,



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Rock River Academy and Residential Treatment Center, Roxbury Treatment Center, Harbor Point Behavioral Health Center, f/k/a, The Pines Residential Treatment Center, including the Crawford, Brighton and Kempsville campuses, Wekiva Springs Center and River Point Behavioral Health. Prior to receiving this subpoena: (i) the Keys of Carolina and Old Vineyard received notification during the second half of 2012 from the United States Department of Justice of its intent to proceed with an investigation following requests for documents from January, 2007 to the present from the North Carolina state Attorney General's Office; (ii) Harbor Point Behavioral Health Center received a subpoena in December, 2012 from the Attorney General of the Commonwealth of Virginia requesting various documents from July 2006 to the present, and; (iii) The Meadows Psychiatric Center received a subpoena from the OIG in February, 2013 requesting certain documents from 2008 to the present. Unrelated to these matters, the Keys of Carolina was closed and the real property was sold in January, 2013. In April 2013, the OIG served facility specific subpoenas on Wekiva Springs Center and River Point Behavioral Health requesting various documents from January 2005 to the present. In June, 2013, the OIG served a subpoena on Coastal Harbor Health System in Savannah, Georgia requesting documents from January, 2009 to the present. In July 2013, another subpoena was issued to Wekiva Springs Center and River Point Behavioral Health requesting additional records. We have recently been advised by the DOJ's Criminal Frauds Section that they have received a referral from the DOJ Civil Division and have opened an investigation of River Point Behavioral Health and Wekiva Springs Center. At present, we are uncertain as to the focus, scope or extent of the investigations, liability of the facilities and/or potential financial exposure, if any, in connection with these matters.

*Matters Relating to PSI:*

The following matters pertain to PSI or former PSI facilities (owned by subsidiaries of Psychiatric Solutions, Inc.) which were in existence prior to the acquisition of PSI and for which we have assumed the defense as a result of our acquisition which was completed in November, 2010:

*Garden City Employees' Retirement System v. PSI:*

This is a purported shareholder class action lawsuit filed in the United States District Court for the Middle District of Tennessee against PSI and the former directors in 2009 alleging violations of federal securities laws. We intend to defend the case vigorously. Should we be deemed liable in this matter, we believe we would be entitled to commercial insurance recoveries for amounts paid by us, subject to certain limitations and deductibles. Included in our consolidated balance sheets as of December 31, 2012 and 2011, is an estimated reserve (current liability) and corresponding commercial insurance recovery (current asset) which did not have a material impact on our financial statements. Although we believe the commercial insurance recoveries are adequate to satisfy potential liability and related legal fees in connection with this matter, we can provide no assurance that the ultimate liability will not exceed the commercial insurance recoveries which would make us liable for the excess.

*Department of Justice Investigation of Friends Hospital:*

In October, 2010, Friends Hospital in Philadelphia, Pennsylvania, received a subpoena from the DOJ requesting certain documents from the facility. The requested documents have been collected and provided to the DOJ for review and examination. Another subpoena was issued to the facility in July 2011 requesting additional documents, which have been collected and delivered to the DOJ. At present, we are uncertain as to the focus, scope or extent of the investigation, liability of the facility and/or potential financial exposure, if any, in connection with this matter.

*Department of Justice Investigation of Riveredge Hospital:*

In 2008, Riveredge Hospital in Chicago, Illinois received a subpoena from the DOJ requesting certain information from the facility. Additional requests for documents were also received from the DOJ in 2009 and 2010. The requested documents have been provided to the DOJ. At present, we are uncertain as to the focus, scope or extent of the investigation, liability of the facility and/or potential financial exposure, if any, in connection with this matter.

*Virginia Department of Medical Assistance Services Recoupment Claims:*

The Virginia Department of Medical Assistance Services ( DMAS ) has conducted audits at seven former PSI Residential Treatment Centers operated in the Commonwealth of Virginia to confirm compliance with provider rules under the state s Medicaid Provider Services Manual ( Manual ). As a result of those audits, DMAS claims the facilities failed to comply with the requirements of the Manual and has requested repayment of Medicaid payments to those facilities. PSI had previously filed appeals to repayment demands at each facility which are currently pending. We have reached a preliminary settlement of this matter which requires finalization of a definitive agreement and approval of Virginia state officials. The aggregate refund of Medicaid payments made to those facilities, as requested by DMAS, and the settlement amount is not material to our consolidated financial position or results of operations.

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The healthcare industry is subject to numerous laws and regulations which include, among other things, matters such as government healthcare participation requirements, various licensure, certifications, and accreditations, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government action has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse and false claims statutes and/or regulations by healthcare providers. Currently, and from time to time, some of our facilities are subjected to inquiries and/or actions and receive notices of potential non-compliance of laws and regulations from various federal and state agencies. Providers that are found to have violated these laws and regulations may be excluded from participating in government healthcare programs, subjected to potential licensure, certification, and/or accreditation revocation, subjected to fines or penalties or required to repay amounts received from the government for previously billed patient services. We monitor all aspects of our business and have developed a comprehensive ethics and compliance program that is designed to meet or exceed applicable federal guidelines and industry standards. Because the law in this area is complex and constantly evolving, governmental investigation or litigation may result in interpretations that are inconsistent with industry practices, including ours. Although we believe our policies, procedures and practices comply with governmental regulations, there is no assurance that we will not be faced with sanctions, fines or penalties in connection with such inquiries or actions, including with respect to the investigations and other matters discussed herein. Even if we were to ultimately prevail, such inquiries and/or actions could have a material adverse effect on us.

The outcome of any current or future litigation or governmental or internal investigations, including the matters described above, cannot be accurately predicted, nor can we predict any resulting penalties, fines or other sanctions that may be imposed at the discretion of federal or state regulatory authorities. We record accruals for such contingencies to the extent that we conclude it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. No estimate of the possible loss or range of loss in excess of amounts accrued, if any, can be made at this time regarding the matters specifically described above because the inherently unpredictable nature of legal proceedings may be exacerbated by various factors, including, but not limited to: (i) the damages sought in the proceedings are unsubstantiated or indeterminate; (ii) discovery is not complete; (iii) the proceeding is in its early stages; (iv) the matters present legal uncertainties; (v) there are significant facts in dispute; (vi) there are a large number of parties, or; (vii) there is a wide range of potential outcomes. It is possible that the outcome of these matters could have a material adverse impact on our future results of operations, financial position, cash flows and, potentially, our reputation.

In addition, various suits and claims arising against us in the ordinary course of business are pending. In the opinion of management, the outcome of such claims and litigation will not materially affect our consolidated financial position or results of operations.

**(6) Segment Reporting**

Our reportable operating segments consist of acute care hospital services and behavioral health care services. The Other segment column below includes centralized services including information services, purchasing, reimbursement, accounting, taxation, legal, advertising, design and construction and patient accounting as well as the operating results for our other operating entities including outpatient surgery and radiation centers. The chief operating decision making group for our acute care hospital services and behavioral health care services is comprised of the Chief Executive Officer, the President and the Presidents of each operating segment. The Presidents of each operating segment also manage the profitability of each respective segment's various facilities. The operating segments are managed separately because each operating segment represents a business unit that offers different types of healthcare services or operates in different healthcare environments. The accounting policies of the operating

segments are the same as those described in the summary of significant accounting policies included in our Annual Report on Form 10-K for the year ended December 31, 2012. The corporate overhead allocations, as reflected below, are utilized for internal reporting purposes and are comprised of each period's projected corporate-level operating expenses (excluding interest expense). The overhead expenses are captured and allocated directly to each segment, to the extent possible, with the non-directly allocated overhead expenses allocated based upon each segment's respective percentage of total facility-based operating expenses.

	<b>Three months ended September 30, 2013</b>			
	<b>Acute Care Hospital Services</b>	<b>Behavioral Health Services</b>	<b>Other</b>	<b>Total Consolidated</b>
	<b>(Amounts in thousands)</b>			
Gross inpatient revenues	\$ 3,296,484	\$ 1,567,436	\$ 0	\$ 4,863,920
Gross outpatient revenues	\$ 1,712,290	\$ 179,783	\$ 10,207	\$ 1,902,280
Total net revenues	\$ 899,533	\$ 907,935	\$ 8,901	\$ 1,816,369
Income/(loss) before allocation of corporate overhead and income taxes	\$ 68,266	\$ 211,456	(\$ 87,150)	\$ 192,572
Allocation of corporate overhead	(\$ 46,112)	(\$ 22,265)	\$ 68,377	\$ 0
Income/(loss) after allocation of corporate overhead and before income taxes	\$ 22,154	\$ 189,191	(\$ 18,773)	\$ 192,572
Total assets as of 9/30/13	\$ 3,123,780	\$ 4,926,271	\$ 301,692	\$ 8,351,743

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	<b>Nine months ended September 30, 2013</b>			
	<b>Acute Care Hospital Services</b>	<b>Behavioral Health Services</b>	<b>Other</b>	<b>Total Consolidated</b>
	<b>(Amounts in thousands)</b>			
Gross inpatient revenues	\$ 10,124,908	\$ 4,741,967	\$ 0	\$ 14,866,875
Gross outpatient revenues	\$ 5,072,065	\$ 559,288	\$ 31,680	\$ 5,663,033
Total net revenues	\$ 2,702,913	\$ 2,746,949	\$ 33,114	\$ 5,482,976
Income/(loss) before allocation of corporate overhead and income taxes	\$ 267,285	\$ 672,787	(\$ 277,698)	\$ 662,374
Allocation of corporate overhead	(\$ 138,333)	(\$ 67,093)	\$ 205,426	\$ 0
Income/(loss) after allocation of corporate overhead and before income taxes	\$ 128,952	\$ 605,694	(\$ 72,272)	\$ 662,374
Total assets as of 9/30/13	\$ 3,123,780	\$ 4,926,271	\$ 301,692	\$ 8,351,743

	<b>Three months ended September 30, 2012</b>			
	<b>Acute Care Hospital Services</b>	<b>Behavioral Health Services</b>	<b>Other</b>	<b>Total Consolidated</b>
	<b>(Amounts in thousands)</b>			
Gross inpatient revenues	\$ 3,013,482	\$ 1,410,170	\$ 0	\$ 4,423,652
Gross outpatient revenues	\$ 1,517,261	\$ 151,788	\$ 14,475	\$ 1,683,524
Total net revenues	\$ 828,399	\$ 841,669	\$ 10,285	\$ 1,680,353
Income/(loss) before allocation of corporate overhead and income taxes	\$ 51,591	\$ 199,275	(\$ 127,361)	\$ 123,505
Allocation of corporate overhead	(\$ 39,360)	(\$ 20,727)	\$ 60,087	\$ 0
Income/(loss) after allocation of corporate overhead and before income taxes	\$ 12,231	\$ 178,548	(\$ 67,274)	\$ 123,505
Total assets as of 9/30/12	\$ 2,925,327	\$ 4,448,775	\$ 406,964	\$ 7,781,066

	<b>Nine months ended September 30, 2012</b>			
	<b>Acute Care Hospital Services</b>	<b>Behavioral Health Services</b>	<b>Other</b>	<b>Total Consolidated</b>
	<b>(Amounts in thousands)</b>			
Gross inpatient revenues	\$ 9,326,344	\$ 4,242,528	\$ 0	\$ 13,568,872
Gross outpatient revenues	\$ 4,606,680	\$ 474,623	\$ 39,468	\$ 5,120,771
Total net revenues	\$ 2,598,527	\$ 2,572,256	\$ 25,690	\$ 5,196,473
Income/(loss) before allocation of corporate overhead and income taxes	\$ 245,718	\$ 623,524	(\$ 338,975)	\$ 530,267
Allocation of corporate overhead	(\$ 118,082)	(\$ 62,665)	\$ 180,747	\$ 0

Income/(loss) after allocation of  
corporate overhead and before  
income taxes

	\$ 127,636	\$ 560,859	(\$ 158,228)	\$ 530,267
Total assets as of 9/30/12	\$ 2,925,327	\$ 4,448,775	\$ 406,964	\$ 7,781,066

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Basic earnings per share are based on the weighted average number of common shares outstanding during the period. Diluted earnings per share are based on the weighted average number of common shares outstanding during the period adjusted to give effect to common stock equivalents.

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated (in thousands, except per share data):

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>(amounts in thousands)</b>				
<b>Basic and Diluted:</b>				
Net income attributable to UHS	\$ 114,587	\$ 71,817	\$ 386,212	\$ 307,985
Less: Net income attributable to unvested restricted share grants	(43)	(85)	(200)	(379)
Net income attributable to UHS basic and diluted	\$ 114,544	\$ 71,732	\$ 386,012	\$ 307,606
Weighted average number of common shares basic	98,151	96,817	97,965	96,701
Net effect of dilutive stock options and grants based on the treasury stock method	1,436	794	1,158	1,010
Weighted average number of common shares and equivalents diluted	99,587	97,611	99,123	97,711
Earnings per basic share attributable to UHS	\$ 1.17	\$ 0.74	\$ 3.94	\$ 3.18
Earnings per diluted share attributable to UHS	\$ 1.15	\$ 0.73	\$ 3.89	\$ 3.15

The Net effect of dilutive stock options and grants based on the treasury stock method, for all periods presented above, excludes certain outstanding stock options applicable to each period since the effect would have been anti-dilutive. There were no significant anti-dilutive stock options during the three and nine months ended September 30, 2013. The excluded weighted-average stock options totaled 2.6 million for each of the three months and nine months ended September 30, 2012. All classes of our common stock have the same dividend rights.

**Stock-Based Compensation:** During the three-month periods ended September 30, 2013 and 2012, compensation cost of \$6.2 million (\$3.8 million after-tax) and \$4.8 million (\$3.0 million after-tax), respectively, was recognized related to outstanding stock options. During the nine-month periods ended September 30, 2013 and 2012, compensation cost of \$19.0 million (\$11.8 million after-tax) and \$14.4 million (\$8.9 million after-tax), respectively, was recognized related to outstanding stock options. In addition, during the three-month periods ended September 30, 2013 and 2012, compensation cost of approximately \$307,000 (\$191,000 after-tax) and \$567,000 (\$352,000 after-tax), respectively, was recognized related to restricted stock. During the nine-month periods ended September 30, 2013 and 2012, compensation cost of approximately \$1.0 million (\$634,000 after-tax) and \$1.7 million (\$1.1 million after-tax), respectively, was recognized related to restricted stock. As of September 30, 2013 there was \$46.0 million of

unrecognized compensation cost related to unvested options and restricted stock which is expected to be recognized over the remaining weighted average vesting period of 2.6 years. There were 2,760,900 stock options granted (net of cancellations) during the first nine months of 2013 with a weighted-average grant date fair value of \$13.32 per share.

**(8) Dispositions and acquisitions**

*Nine-month periods ended September 30, 2013 and 2012:*

**Acquisitions:**

During the first nine months of 2013, we spent approximately \$1 million in connection with the acquisition of real property located in Pennsylvania.

During the first nine months of 2012, we spent \$25 million in connection with the acquisition of a physician practice and various real properties.

**Divestitures:**

During the first nine months of 2013, we received aggregate cash proceeds of approximately \$37 million for the divestiture of: (i) Peak Behavioral Health Services ( Peak ), a 104-bed behavioral health care facility located in Santa Teresa, New Mexico (sold during



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the second quarter of 2013); (ii) the real property of five previously closed behavioral health care facilities and an outpatient surgery center, and; (iii) our ownership interest in an outpatient surgery center. In connection with the receipt of antitrust clearance from the Federal Trade Commission in connection with our acquisition of Ascend Health Corporation in October of 2012, we agreed to divest Peak. The assets and liabilities for Peak were reflected as held for sale on our Consolidated Balance Sheet as of December 31, 2012. The pre-tax net gain on these divestitures did not have a material impact on our consolidated results of operations during the nine-month period ended September 30, 2013.

During the first nine months of 2012, we received aggregate cash proceeds of approximately \$56 million for the divestiture of: (i) the Hospital San Juan Capistrano, a 108-bed behavioral health care facility located in Rio Piedras, Puerto Rico, that was sold in January, 2012 pursuant to our agreement with the Federal Trade Commission in connection with our acquisition of Psychiatric Solutions, Inc., and; (ii) the real property of two previously closed behavioral health care facilities. The pre-tax net gain on these divestitures did not have a material impact on our consolidated results of operations during the first nine months of 2012.

**(9) Dividends**

We declared and paid dividends of \$4.9 million, or \$.05 per share, during the third quarter of 2013 and \$4.8 million, or \$.05 per share, during the third quarter of 2012. We declared and paid dividends of \$14.7 million and \$14.5 million during the nine-month periods ended September 30, 2013 and 2012, respectively.

**(10) Pension Plan**

The following table shows the components of net periodic pension cost for our defined benefit pension plan as of September 30, 2013 and 2012 (amounts in thousands):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Service cost	\$ 265	\$ 286	\$ 795	\$ 858
Interest cost	1,132	1,165	3,396	3,495
Expected return on assets	(1,901)	(1,825)	(5,702)	(5,476)
Recognized actuarial loss	827	1,055	2,480	3,165
Net periodic pension cost	\$ 323	\$ 681	\$ 969	\$ 2,042

During the nine months ended September 30, 2013, there were no contributions made to our pension plan.

**(11) Income Taxes**

As of January 1, 2013, our unrecognized tax benefits were approximately \$7 million. The amount, if recognized, that would affect the effective tax rate is approximately \$4 million. During the quarter ended September 30, 2013, changes to the estimated liabilities for uncertain tax positions (including accrued interest) relating to tax positions taken during prior and current periods did not have a material impact on our financial statements.

We recognize accrued interest and penalties associated with uncertain tax positions as part of the tax provision. As of September 30, 2013, we have approximately \$2 million of accrued interest and penalties. The U.S. federal statute of limitations remains open for the 2010 and subsequent years. Foreign and U.S. state and local jurisdictions have statutes of limitations generally ranging from 3 to 4 years. The statute of limitations on certain jurisdictions could expire within the next twelve months. It is reasonably possible that the estimated liabilities for uncertain tax positions will decrease by approximately \$3 million due to settlements during the next 12 months which would not have a material impact on our financial statements.

We operate in multiple jurisdictions with varying tax laws. We are subject to audits by any of these taxing authorities. Our tax returns have been examined by the Internal Revenue Service ( IRS ) through the year ended December 31, 2006. We believe that adequate accruals have been provided for federal, foreign and state taxes.

## **(12) Supplemental Condensed Consolidating Financial Information**

Certain of our senior notes are guaranteed by a group of subsidiaries (the Guarantors ). The Guarantors, each of which is a 100% directly owned subsidiary of Universal Health Services, Inc., fully and unconditionally guarantee the senior notes on a joint and several basis, subject to certain customary release provisions.

The following financial statements present condensed consolidating financial data for (i) Universal Health Services, Inc. (on a parent company only basis), (ii) the combined Guarantors, (iii) the combined non guarantor subsidiaries (all other subsidiaries), (iv) an elimination column for adjustments to arrive at the information for the parent company, Guarantors, and non guarantors on a consolidated basis, and (v) the parent company and our subsidiaries on a consolidated basis.

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Investments in subsidiaries are accounted for by the parent company and the Guarantors using the equity method for this presentation. Results of operations of subsidiaries are therefore classified in the parent company's and Guarantors investment in subsidiaries accounts. The elimination entries set forth in the following condensed consolidating financial statements eliminate distributed and undistributed income of subsidiaries, investments in subsidiaries, and intercompany balances and transactions between the parent, Guarantors, and non guarantors.

**UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENTS OF INCOME****FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013**

(amounts in thousands)

	<b>Parent</b>	<b>Guarantors</b>	<b>Non Guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated Amounts</b>
Net revenues before provision for doubtful accounts	\$ 0	\$ 1,451,793	\$ 690,311	\$ (7,364)	\$ 2,134,740
Less: Provision for doubtful accounts	0	188,151	130,220	0	318,371
Net revenues	0	1,263,642	560,091	(7,364)	1,816,369
Operating charges:					
Salaries, wages and benefits	0	646,595	256,617	0	903,212
Other operating expenses	0	255,295	145,222	(6,968)	393,549
Supplies expense	0	128,284	78,711	0	206,995
Electronic health records incentive income	0	(16,089)	(7,059)	0	(23,148)
Depreciation and amortization	0	60,615	26,356	0	86,971
Lease and rental expense	0	15,518	8,782	(396)	23,904
	0	1,090,218	508,629	(7,364)	1,591,483
Income from operations	0	173,424	51,462	0	224,886
Interest expense	30,853	840	621	0	32,314
Interest (income) expense, affiliate	0	24,391	(24,391)	0	0
Equity in net income of consolidated affiliates	(133,630)	(28,048)	0	161,678	0
Income before income taxes	102,777	176,241	75,232	(161,678)	192,572
Provision for (benefit from) income taxes	(11,810)	62,429	18,854	0	69,473
Net income	114,587	113,812	56,378	(161,678)	123,099

Less: Income attributable to noncontrolling interests	0	0	8,512	0	8,512
Net income attributable to UHS	\$ 114,587	\$ 113,812	\$ 47,866	\$ (161,678)	\$ 114,587

Table of Contents**UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENTS OF INCOME****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013**

(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net revenues before provision for doubtful accounts	\$ 0	\$ 4,289,656	\$ 2,026,466	\$ (21,372)	\$ 6,294,750
Less: Provision for doubtful accounts	0	488,213	323,561	0	811,774
Net revenues	0	3,801,443	1,702,905	(21,372)	5,482,976
Operating charges:					
Salaries, wages and benefits	0	1,931,610	771,232	0	2,702,842
Other operating expenses	0	693,102	427,488	(20,472)	1,100,118
Supplies expense	0	380,888	233,093	0	613,981
Electronic health records incentive income	0	(19,657)	(8,286)	0	(27,943)
Depreciation and amortization	0	173,991	74,474	0	248,465
Lease and rental expense	0	46,729	26,822	(900)	72,651
	0	3,206,663	1,524,823	(21,372)	4,710,114
Income from operations	0	594,780	178,082	0	772,862
Interest expense	105,571	2,540	2,377	0	110,488
Interest (income) expense, affiliate	0	73,173	(73,173)	0	0
Equity in net income of consolidated affiliates	(451,375)	(98,326)	0	549,701	0
Income before income taxes	345,804	617,393	248,878	(549,701)	662,374
Provision for (benefit from) income taxes	(40,408)	221,322	60,623	0	241,537
Net income	386,212	396,071	188,255	(549,701)	420,837
Less: Income attributable to noncontrolling interests	0	0	34,625	0	34,625
Net income attributable to UHS	\$ 386,212	\$ 396,071	\$ 153,630	\$ (549,701)	\$ 386,212



**Table of Contents****UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENTS OF INCOME****FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012**

(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net revenues before provision for doubtful accounts	\$ 0	\$ 1,269,429	\$ 605,991	\$ (6,157)	\$ 1,869,263
Less: Provision for doubtful accounts	0	110,187	78,723	0	188,910
Net revenues	0	1,159,242	527,268	(6,157)	1,680,353
Operating charges:					
Salaries, wages and benefits	0	595,546	242,529	0	838,075
Other operating expenses	0	236,218	132,531	(6,062)	362,687
Supplies expense	0	118,357	73,390	0	191,747
Electronic health records incentive income	0	(3,109)	(7,442)	0	(10,551)
Depreciation and amortization	0	52,985	24,047	0	77,032
Lease and rental expense	0	14,884	8,692	(95)	23,481
Costs relating to extinguishment of debt	29,170	0	0	0	29,170
	29,170	1,014,881	473,747	(6,157)	1,511,641
Income from operations	(29,170)	144,361	53,521	0	168,712
Interest expense	43,649	886	672	0	45,207
Interest (income) expense, affiliate	0	22,782	(22,782)	0	0
Equity in net income of consolidated affiliates	(116,764)	(25,037)	0	141,801	0
Income before income taxes	43,945	145,730	75,631	(141,801)	123,505
Provision for (benefit from) income taxes	(27,872)	50,012	19,992	0	42,132
Net income	71,817	95,718	55,639	(141,801)	81,373
Less: Income attributable to noncontrolling interests	0	0	9,556	0	9,556
Net income attributable to UHS	\$ 71,817	\$ 95,718	\$ 46,083	\$ (141,801)	\$ 71,817





**Table of Contents****UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENTS OF INCOME****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012**

(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net revenues before provision for doubtful accounts	\$ 0	\$ 3,896,741	\$ 1,840,971	\$ (19,036)	\$ 5,718,676
Less: Provision for doubtful accounts	0	304,955	217,248	0	522,203
Net revenues	0	3,591,786	1,623,723	(19,036)	5,196,473
Operating charges:					
Salaries, wages and benefits	0	1,825,547	739,505	0	2,565,052
Other operating expenses	0	695,599	382,201	(18,752)	1,059,048
Supplies expense	0	369,190	225,734	0	594,924
Electronic health records incentive income	0	(5,064)	(7,442)	0	(12,506)
Depreciation and amortization	0	155,242	66,565	0	221,807
Lease and rental expense	0	44,122	27,068	(284)	70,906
Costs related to extinguishment of debt	29,170	0	0	0	29,170
	29,170	3,084,636	1,433,631	(19,036)	4,528,401
Income from operations	(29,170)	507,150	190,092	0	668,072
Interest expense	133,101	2,511	2,193	0	137,805
Interest (income) expense, affiliate	0	68,347	(68,347)	0	0
Equity in net income of consolidated affiliates	(408,146)	(94,662)	0	502,808	0
Income before income taxes	245,875	530,954	256,246	(502,808)	530,267
Provision for (benefit from) income taxes	(62,110)	186,641	64,349	0	188,880
Net income	307,985	344,313	191,897	(502,808)	341,387
Less: Income attributable to noncontrolling interests	0	0	33,402	0	33,402
Net income attributable to UHS	\$ 307,985	\$ 344,313	\$ 158,495	\$ (502,808)	\$ 307,985



Table of Contents**UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME****FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013**

(amounts in thousands)

	<b>Parent</b>	<b>Guarantors</b>	<b>Non Guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated Amounts</b>
Net income	\$ 114,587	\$ 113,812	\$ 56,378	\$ (161,678)	\$ 123,099
Other comprehensive income (loss):					
Unrealized derivative gains on cash flow hedges	3,054	0	0	0	3,054
Amortization of terminated hedge	(84)	0	0	0	(84)
Other comprehensive income before tax	2,970	0	0	0	2,970
Income tax expense related to items of other comprehensive income	1,120	0	0	0	1,120
Total other comprehensive income, net of tax	1,850	0	0	0	1,850
Comprehensive income	116,437	113,812	56,378	(161,678)	124,949
Less: Comprehensive income attributable to noncontrolling interests	0	0	8,512	0	8,512
Comprehensive income attributable to UHS	\$ 116,437	\$ 113,812	\$ 47,866	\$ (161,678)	\$ 116,437

**UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013**

(amounts in thousands)

	<b>Parent</b>	<b>Guarantors</b>	<b>Non Guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated Amounts</b>
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Net income	\$ 386,212	\$ 396,071	\$ 188,255	\$ (549,701)	\$ 420,837
Other comprehensive income (loss):					
Unrealized derivative gains on cash flow hedges	12,871	0	0	0	12,871
Amortization of terminated hedge	(252)	0	0	0	(252)
Other comprehensive income before tax	12,619	0	0	0	12,619
Income tax expense related to items of other comprehensive income	4,758	0	0	0	4,758
Total other comprehensive income, net of tax	7,861	0	0	0	7,861
Comprehensive income	394,073	396,071	188,255	(549,701)	428,698
Less: Comprehensive income attributable to noncontrolling interests	0	0	34,625	0	34,625
Comprehensive income attributable to UHS	\$ 394,073	\$ 396,071	\$ 153,630	\$ (549,701)	\$ 394,073

Table of Contents**UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME****FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012**

(amounts in thousands)

	<b>Parent</b>	<b>Guarantors</b>	<b>Non Guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated Amounts</b>
Net income	\$ 71,817	\$ 95,718	\$ 55,639	\$ (141,801)	\$ 81,373
Other comprehensive income (loss):					
Unrealized derivative gains on cash flow hedges	(45)	0	0	0	(45)
Amortization of terminated hedge	(84)	0	0	0	(84)
Other comprehensive income before tax	(129)	0	0	0	(129)
Income tax expense related to items of other comprehensive income	(47)	0	0	0	(47)
Total other comprehensive income, net of tax	(82)	0	0	0	(82)
Comprehensive income	71,735	95,718	55,639	(141,801)	81,291
Less: Comprehensive income attributable to noncontrolling interests	0	0	9,556	0	9,556
Comprehensive income attributable to UHS	\$ 71,735	\$ 95,718	\$ 46,083	\$ (141,801)	\$ 71,735

**UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012**

(amounts in thousands)

	<b>Parent</b>	<b>Guarantors</b>	<b>Non Guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated Amounts</b>
Net income	\$ 307,985	\$ 344,313	\$ 191,897	\$ (502,808)	\$ 341,387

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Other comprehensive income (loss):

Unrealized derivative gains on cash flow hedges	1,782	0	0	0	1,782
Amortization of terminated hedge	(252)	0	0	0	(252)
Other comprehensive income before tax	1,530	0	0	0	1,530
Income tax expense related to items of other comprehensive income	585	0	0	0	585
Total other comprehensive income, net of tax	945	0	0	0	945
Comprehensive income	308,930	344,313	191,897	(502,808)	342,332
Less: Comprehensive income attributable to noncontrolling interests	0	0	33,402	0	33,402
Comprehensive income attributable to UHS	\$ 308,930	\$ 344,313	\$ 158,495	\$ (502,808)	\$ 308,930

Table of Contents**UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING BALANCE SHEET****AS OF SEPTEMBER 30, 2013**

(amounts in thousands)

	<b>Parent</b>	<b>Guarantors</b>	<b>Non Guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated Amounts</b>
<b>Assets</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 0	\$ 4,364	\$ 7,758	\$ 0	\$ 12,122
Accounts receivable, net	2,935	812,583	350,996	0	1,166,514
Supplies	0	63,431	37,818	0	101,249
Other current assets	2,344	78,183	10,244	0	90,771
Deferred income taxes	89,342	43,282	0	0	132,624
<b>Total current assets</b>	<b>94,621</b>	<b>1,001,843</b>	<b>406,816</b>	<b>0</b>	<b>1,503,280</b>
Investments in subsidiaries	6,232,854	1,422,158	0	(7,655,012)	0
Intercompany receivable	395,486	0	500,227	(895,713)	0
Intercompany note receivable	0	0	1,007,453	(1,007,453)	0
Property and equipment	0	4,044,182	1,565,894	0	5,610,076
Less: accumulated depreciation	0	(1,434,744)	(750,431)	0	(2,185,175)
	0	2,609,438	815,463	0	3,424,901
<b>Other assets:</b>					
Goodwill	820	2,541,523	496,826	0	3,039,169
Deferred charges	54,160	6,002	2,457	0	62,619
Other	8,147	240,659	72,968	0	321,774
	\$ 6,786,088	\$ 7,821,623	\$ 3,302,210	\$ (9,558,178)	\$ 8,351,743
<b>Liabilities and Stockholders Equity</b>					
<b>Current liabilities:</b>					
Current maturities of long-term debt	\$ 86,903	\$ 364	\$ 1,025	\$ 0	\$ 88,292
Accounts payable and accrued liabilities	39,282	714,033	173,453	0	926,768
Federal and state taxes	7,274	1,983	0	0	9,257
<b>Total current liabilities</b>	<b>133,459</b>	<b>716,380</b>	<b>174,478</b>	<b>0</b>	<b>1,024,317</b>

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Intercompany payable	0	895,713	0	(895,713)	0
Other noncurrent liabilities	15,326	199,061	105,827	0	320,214
Long-term debt	3,367,414	5,191	39,030	0	3,411,635
Intercompany note payable	0	1,007,453	0	(1,007,453)	0
Deferred income taxes	159,111	55,915	0	0	215,026
Redeemable noncontrolling interests	0	0	218,080	0	218,080
UHS common stockholders equity	3,110,778	4,941,910	2,713,102	(7,655,012)	3,110,778
Noncontrolling interest	0	0	51,693	0	51,693
Total equity	3,110,778	4,941,910	2,764,795	(7,655,012)	3,162,471
	\$ 6,786,088	\$ 7,821,623	\$ 3,302,210	\$ (9,558,178)	\$ 8,351,743



Table of Contents**UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING BALANCE SHEET****AS OF DECEMBER 31, 2012**

(amounts in thousands)

	<b>Parent</b>	<b>Guarantors</b>	<b>Non Guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated Amounts</b>
<b>Assets</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 0	\$ 11,949	\$ 11,522	\$ 0	\$ 23,471
Accounts receivable, net	7,154	741,983	318,060	0	1,067,197
Supplies	0	61,100	37,900	0	99,000
Other current assets	2,188	75,117	10,631	0	87,936
Deferred income taxes	61,364	43,555	322	(780)	104,461
Assets of facilities held for sale	0	0	25,431	0	25,431
<b>Total current assets</b>	<b>70,706</b>	<b>933,704</b>	<b>403,866</b>	<b>(780)</b>	<b>1,407,496</b>
Investments in subsidiaries	5,781,479	1,323,832	0	(7,105,311)	0
Intercompany receivable	644,105	0	360,538	(1,004,643)	0
Intercompany note receivable	0	0	1,007,453	(1,007,453)	0
Property and equipment	0	3,867,471	1,500,874	0	5,368,345
Less: accumulated depreciation	0	(1,288,975)	(697,135)	0	(1,986,110)
	0	2,578,496	803,739	0	3,382,235
<b>Other assets:</b>					
Goodwill	820	2,554,531	481,414	0	3,036,765
Deferred charges	67,831	5,839	2,218	0	75,888
Other	9,645	209,558	79,256	0	298,459
	\$ 6,574,586	\$ 7,605,960	\$ 3,138,484	\$ (9,118,187)	\$ 8,200,843
<b>Liabilities and Stockholders Equity</b>					
<b>Current liabilities:</b>					
Current maturities of long-term debt	\$ 0	\$ 990	\$ 1,599	\$ 0	\$ 2,589
Accounts payable and accrued liabilities	10,985	740,484	138,088	0	889,557
Liabilities of facilities held for sale	0	0	850	0	850
Federal and state taxes	0	900	620	(458)	1,062

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Total current liabilities	10,985	742,374	141,157	(458)	894,058
Intercompany payable	0	1,004,643	0	(1,004,643)	0
Other noncurrent liabilities	46,048	243,478	105,829	0	395,355
Long-term debt	3,676,940	5,372	45,119	0	3,727,431
Intercompany note payable	0	1,007,453	0	(1,007,453)	0
Deferred income taxes	127,268	56,801	0	(322)	183,747
Redeemable noncontrolling interests	0	0	234,303	0	234,303
UHS common stockholders equity	2,713,345	4,545,839	2,559,472	(7,105,311)	2,713,345
Noncontrolling interest	0	0	52,604	0	52,604
Total equity	2,713,345	4,545,839	2,612,076	(7,105,311)	2,765,949
	\$ 6,574,586	\$ 7,605,960	\$ 3,138,484	\$ (9,118,187)	\$ 8,200,843

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**UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013**

(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
<b>Net cash provided by operating activities</b>	\$ 9,438	\$ 341,031	241,263	\$ 0	\$ 591,732
<b>Cash Flows from Investing Activities:</b>					
Property and equipment additions, net of disposals	0	(202,758)	(76,993)	0	(279,751)
Proceeds received from sale of assets and businesses	0	7,552	29,566	0	37,118
Acquisition of property and businesses	0	(1,320)	0	0	(1,320)
Costs incurred for purchase and implementation of electronic health records application	0	(42,353)	0	0	(42,353)
<b>Net cash used in investing activities</b>	<b>0</b>	<b>(238,879)</b>	<b>(47,427)</b>	<b>0</b>	<b>(286,306)</b>
<b>Cash Flows from Financing Activities:</b>					
Reduction of long-term debt	(226,761)	(807)	(6,663)	0	(234,231)
Additional borrowings	1,500	0	0	0	1,500
Repurchase of common shares	(22,186)	0	0	0	(22,186)
Dividends paid	(14,706)	0	0	0	(14,706)
Issuance of common stock	4,096	0	0	0	4,096
Profit distributions to noncontrolling interests	0	0	(51,248)	0	(51,248)
Changes in intercompany balances with affiliates, net	248,619	(108,930)	(139,689)	0	0
<b>Net cash used in financing activities</b>	<b>(9,438)</b>	<b>(109,737)</b>	<b>(197,600)</b>	<b>0</b>	<b>(316,775)</b>
Decrease in cash and cash equivalents	0	(7,585)	(3,764)	0	(11,349)
Cash and cash equivalents, beginning of period	0	11,949	11,522	0	23,471
Cash and cash equivalents, end of period	\$ 0	\$ 4,364	\$ 7,758	\$ 0	\$ 12,122



Table of Contents**UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012**

(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (7,607)</b>	<b>\$ 379,574</b>	<b>163,039</b>	<b>\$ 0</b>	<b>\$ 535,006</b>
<b>Cash Flows from Investing Activities:</b>					
Property and equipment additions, net of disposals	0	(236,978)	(45,213)	0	(282,191)
Proceeds received from sale of assets and businesses	0	49,984	6,210	0	56,194
Acquisition of property and businesses	0	(11,476)	(13,616)	0	(25,092)
Costs incurred for purchase and implementation of electronic health records application	0	(41,854)	0	0	(41,854)
Return of deposit on terminated purchase agreement	6,500	0	0	0	6,500
<b>Net cash provided by (used in) investing activities</b>	<b>6,500</b>	<b>(240,324)</b>	<b>(52,619)</b>	<b>0</b>	<b>(286,443)</b>
<b>Cash Flows from Financing Activities:</b>					
Reduction of long-term debt	(1,123,140)	(2,567)	(2,122)	0	(1,127,829)
Additional borrowings	906,000	0	0	0	906,000
Financing costs	(8,257)	0	0	0	(8,257)
Repurchase of common shares	(9,676)	0	0	0	(9,676)
Dividends paid	(14,519)	0	0	0	(14,519)
Issuance of common stock	3,828	0	0	0	3,828
Profit distributions to noncontrolling interests	0	0	(13,687)	0	(13,687)
Changes in intercompany balances with affiliates, net	246,871	(151,417)	(95,454)	0	0
<b>Net cash provided by (used in) financing activities</b>	<b>1,107</b>	<b>(153,984)</b>	<b>(111,263)</b>	<b>0</b>	<b>(264,140)</b>

Decrease in cash and cash equivalents	0	(14,734)	(843)	0	(15,577)
Cash and cash equivalents, beginning of period	0	33,221	8,008	0	41,229
Cash and cash equivalents, end of period	\$ 0	\$ 18,487	\$ 7,165	\$ 0	\$ 25,652

### (13) Recent Accounting Standards

In February 2013, the Financial Accounting Standards Board issued an Accounting Standards Update on reporting of amounts reclassified out of accumulated other comprehensive income. This guidance, which is effective for fiscal years beginning after December 15, 2012, requires companies to provide information about amounts reclassified out of accumulated other comprehensive income by component (the respective line items of the income statement). The adoption of this standard on January 1, 2013 had no impact on our financial position or overall results of operations.

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations** **Overview**

Our principal business is owning and operating, through our subsidiaries, acute care hospitals, behavioral health centers, surgical hospitals, ambulatory surgery centers and radiation oncology centers. As of September 30, 2013, we owned and/or operated 23 acute care hospitals and 195 behavioral health centers located in 37 states, Washington, D.C., Puerto Rico and the U.S. Virgin Islands. As part of our ambulatory treatment centers division, we manage and/or own outright or in partnerships with physicians, 5 surgical hospitals and surgery and radiation oncology centers located in 4 states. In October, 2012, we acquired Ascend Health Corporation ( Ascend ). Ascend was the largest private behavioral health provider with 9 owned or leased freestanding inpatient facilities located in 5 states.

Net revenues from our acute care hospitals, surgical hospitals, surgery centers and radiation oncology centers accounted for 50% of our consolidated net revenues during each of the three and nine-month periods ended September 30, 2013 and 2012. Net revenues from our behavioral health care facilities accounted for 50% of our consolidated net revenues during each of the three and nine-month periods ended September 30, 2013 and 2012.

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Services provided by our hospitals include general and specialty surgery, internal medicine, obstetrics, emergency room care, radiology, oncology, diagnostic care, coronary care, pediatric services, pharmacy services and/or behavioral health services. We provide capital resources as well as a variety of management services to our facilities, including central purchasing, information services, finance and control systems, facilities planning, physician recruitment services, administrative personnel management, marketing and public relations.

## **Forward-Looking Statements and Risk Factors**

You should carefully review the information contained in this Quarterly Report, and should particularly consider any risk factors that we set forth in this Quarterly Report and in other reports or documents that we file from time to time with the Securities and Exchange Commission (the "SEC"). In this Quarterly Report, we state our beliefs of future events and of our future financial performance. This Quarterly Report contains forward-looking statements that reflect our current estimates, expectations and projections about our future results, performance, prospects and opportunities. Forward-looking statements include, among other things, the information concerning our possible future results of operations, business and growth strategies, financing plans, expectations that regulatory developments or other matters will not have a material adverse effect on our business or financial condition, our competitive position and the effects of competition, the projected growth of the industry in which we operate, and the benefits and synergies to be obtained from our completed and any future acquisitions, and statements of our goals and objectives, and other similar expressions concerning matters that are not historical facts. Words such as may, will, should, could, would, potential, continue, expects, anticipates, future, intends, plans, believes, estimates, appears, expressions, as well as statements in future tense, identify forward-looking statements. In evaluating those statements, you should specifically consider various factors, including the risks related to healthcare industry trends and those detailed in our filings with the SEC including those set forth herein and in our Annual Report on Form 10-K for the year ended December 31, 2012 in *Item 1A Risk Factors* and in *Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations - Forward Looking Statements and Risk Factors*. Those factors may cause our actual results to differ materially from any of our forward-looking statements.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by which, such performance or results will be achieved. Forward-looking information is based on information available at the time and/or our good faith belief with respect to future events, and is subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements. Such factors include, among other things, the following:

our ability to comply with the existing laws and government regulations, and/or changes in laws and government regulations;

an increasing number of legislative initiatives have recently been passed into law that may result in major changes in the health care delivery system on a national or state level. No assurances can be given that the implementation of these new laws will not have a material adverse effect on our business, financial condition or results of operations;

possible unfavorable changes in the levels and terms of reimbursement for our charges by third party payors or government programs, including Medicare or Medicaid;

an increase in the number of uninsured and self-pay patients treated at our acute care facilities that unfavorably impacts our ability to satisfactorily and timely collect our self-pay patient accounts;

our ability to enter into managed care provider agreements on acceptable terms and the ability of our competitors to do the same, including contracts with United/Sierra Healthcare in Las Vegas, Nevada;

the outcome of known and unknown litigation, government investigations, false claim act allegations, and liabilities and other claims asserted against us, including matters as disclosed in *Item 1. Legal Proceedings*;

the potential unfavorable impact on our business of deterioration in national, regional and local economic and business conditions, including a continuation or worsening of unfavorable credit market conditions;

competition from other healthcare providers (including physician owned facilities) in certain markets, including McAllen/Edinburg, Texas, the site of one of our largest acute care facilities and Riverside County, California;

technological and pharmaceutical improvements that increase the cost of providing, or reduce the demand for healthcare;

our ability to attract and retain qualified personnel, nurses, physicians and other healthcare professionals and the impact on our labor expenses resulting from a shortage of nurses and other healthcare professionals;

demographic changes;

our level of indebtedness has increased substantially as a result of our 2010 acquisition of PSI, and increased more as a result of our acquisition of Ascend Health Corporation in October, 2012, which could, among other things, adversely affect our ability to raise additional capital to fund operations, limit our ability to react to changes in the economy or our industry and could potentially prevent us from meeting our obligations under the agreements related to our indebtedness;



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our ability to successfully integrate and improve our recent acquisitions and the availability of suitable acquisitions and divestiture opportunities;

as discussed below in *Sources of Revenue*, we receive revenues from various state and county based programs, including Medicaid in all the states in which we operate, (we receive Medicaid revenues in excess of \$90 million annually from each of Texas, Pennsylvania, Washington, D.C., Illinois, Virginia and Massachusetts); CMS-approved Medicaid supplemental programs in certain states including Oklahoma, California and Arkansas, and; state Medicaid disproportionate share hospital payments in certain states including Texas and South Carolina. We are therefore particularly sensitive to potential reductions in Medicaid and other state based revenue programs (which have been implemented in various forms with respect to our areas of operation in the respective states 2012, 2013 and 2014 fiscal years) as well as regulatory, economic, environmental and competitive changes in those states. We can provide no assurance that reductions to revenues earned pursuant to these programs, particularly in the above-mentioned states, will not have a material adverse effect on our future results of operations;

our ability to continue to obtain capital on acceptable terms, including borrowed funds, to fund the future growth of our business;

some of our acute care facilities continue to experience decreasing inpatient admission trends;

our financial statements reflect large amounts due from various commercial and private payors and there can be no assurance that failure of the payors to remit amounts due to us will not have a material adverse effect on our future results of operations;

in March, 2010, the Health Care and Education Reconciliation Act of 2010 and the Patient Protection and Affordable Care Act were enacted into law and created significant changes to health insurance coverage for U.S. citizens as well as material revisions to the federal Medicare and state Medicaid programs. The two combined primary goals of these acts are to provide for increased access to coverage for healthcare and to reduce healthcare-related expenses. Medicare, Medicaid and other health care industry changes are scheduled to be implemented at various times during this decade. We cannot predict the effect, if any, these enactments will have on our future results of operations;

the Department of Health and Human Services ( HHS ) published final regulations in July, 2010 implementing the health information technology ( HIT ) provisions of the American Recovery and Reinvestment Act (referred to as the HITECH Act ). The final regulation defines the meaningful use of Electronic Health Records ( EHR ) and establishes the requirements for the Medicare and Medicaid EHR payment incentive programs. The implementation period for these new Medicare and Medicaid incentive payments started in federal fiscal year 2011 and can end as late as 2016 for Medicare and 2021 for the state Medicaid programs. Hospitals that do not qualify as a meaningful user of EHR by 2015 are subject to a reduced market basket update to the inpatient prospective payment system standardized amount in 2015 and each subsequent fiscal year. Certain of our acute care hospitals implemented EHR applications in 2011 and 2012 and we continued the implementation at each of our acute care hospitals, on a facility-by-facility basis,

until completion which occurred in June, 2013. Our acute care hospitals are eligible for Medicare and Medicaid EHR incentive payments upon implementation of the EHR application, once they have demonstrated meaningful use of certified EHR technology for the applicable stage or have completed attestations to their adoption or implementation of certified EHR technology. With the exception of the newly constructed Temecula Valley Hospital, which was opened in October, 2013, we believe that all of our acute care hospitals have met the stage 1, year one meaningful use criteria. Although we believe that our acute care hospitals will be in compliance with the EHR standards by 2015, there can be no assurance that all of our facilities will be in compliance and therefore not subject to the penalty provision of the HITECH Act. Should we (our acute care hospitals) qualify for incentive payments, there may be timing differences in the recognition of the incentive income and expenses recorded in connection with the implementation of the EHR applications which may cause material period-to-period changes in our future results of operations;

in August, 2011, the Budget Control Act of 2011 (the 2011 Act ) was enacted into law. The 2011 Act imposed annual spending limits for most federal agencies and programs aimed at reducing budget deficits by \$917 billion between 2012 and 2021, according to a report released by the Congressional Budget Office. Among its other provisions, the law established a bipartisan Congressional committee, known as the Joint Select Committee on Deficit Reduction (the Joint Committee ), which was tasked with making recommendations aimed at reducing future federal budget deficits by an additional \$1.5 trillion over 10 years. The Joint Committee was unable to reach an agreement by the November 23, 2011 deadline and, as a result, across-the-board cuts to discretionary, national defense and Medicare spending were implemented on March 1, 2013 resulting in Medicare payment reductions of up to 2% per fiscal year (approximately \$39 million annual reduction to our Medicare net revenues effective as of April 1, 2013) with a uniform percentage reduction across all Medicare programs. We cannot predict whether Congress will attempt to suspend or restructure the automatic budget cuts or what other deficit reduction initiatives may be proposed by Congress;

as of September 30, 2013 and December 31, 2012, our accounts receivable includes approximately \$29 million and \$70 million, respectively, due from Illinois. Although the outstanding balance has been reduced significantly as a result of substantial cash remittances received from the state during the second quarter of 2013 (approximately \$72 million was due

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from Illinois as of March 31, 2013), collection of the outstanding receivables continues to be delayed due to state budgetary and funding pressures. Approximately \$10 million as of September 30, 2013 and \$51 million as of December 31, 2012, of the receivables due from Illinois were outstanding in excess of 60 days, as of each respective date. Although the remaining accounts receivable due from Illinois could remain outstanding for the foreseeable future, since we expect to eventually collect all amounts due to us, no related reserves have been established in our consolidated financial statements. However, we can provide no assurance that we will eventually collect all amounts due to us from Illinois. Failure to ultimately collect all outstanding amounts due from Illinois would have an adverse impact on our future consolidated results of operations and cash flows;

the ability to obtain adequate levels of general and professional liability insurance on current terms;

changes in our business strategies or development plans;

fluctuations in the value of our common stock, and;

other factors referenced herein or in our other filings with the Securities and Exchange Commission. Given these uncertainties, risks and assumptions, as outlined above, you are cautioned not to place undue reliance on such forward-looking statements. Our actual results and financial condition could differ materially from those expressed in, or implied by, the forward-looking statements. Forward-looking statements speak only as of the date the statements are made. We assume no obligation to publicly update any forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except as may be required by law. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. We consider our critical accounting policies to be those that require us to make significant judgments and estimates when we prepare our consolidated financial statements. For a summary of our significant accounting policies, please see *Note 1 to the Consolidated Financial Statements* as included in our Annual Report on Form 10-K for the year ended December 31, 2012.

**Revenue recognition:** We record revenues and related receivables for health care services at the time the services are provided. Medicare and Medicaid revenues represented 36% and 39% of our net patient revenues during the three-month periods ended September 30, 2013 and 2012, respectively, and 36% and 39% during the nine-month periods ended September 30, 2013 and 2012, respectively. Revenues from managed care entities, including health maintenance organizations and managed Medicare and Medicaid programs, accounted for 48% and 49% of our net patient revenues during the three-month periods ended September 30, 2013 and 2012, respectively, and 48% and 49% during the nine-month periods ended September 30, 2013 and 2012, respectively.

**Provision for Doubtful Accounts:** On a consolidated basis, we monitor our total self-pay receivables to ensure that the total allowance for doubtful accounts provides adequate coverage based on historical collection experience. Our

accounts receivable are recorded net of allowance for doubtful accounts of \$480 million at September 30, 2013 and \$311 million at December 31, 2012.

As of September 30, 2013 and December 31, 2012, our accounts receivable includes approximately \$29 million and \$70 million, respectively, due from Illinois. Although the outstanding balance has been reduced significantly as a result of substantial cash remittances received from the state during the second quarter of 2013 (approximately \$72 million was due from Illinois as of March 31, 2013), collection of the outstanding receivables continues to be delayed due to state budgetary and funding pressures. Approximately \$10 million as of September 30, 2013 and \$51 million as of December 31, 2012, of the receivables due from Illinois were outstanding in excess of 60 days, as of each respective date. Although the remaining accounts receivable due from Illinois could remain outstanding for the foreseeable future, since we expect to eventually collect all amounts due to us, no related reserves have been established in our consolidated financial statements. However, we can provide no assurance that we will eventually collect all amounts due to us from Illinois. Failure to ultimately collect all outstanding amounts due from Illinois would have an adverse impact on our future consolidated results of operations and cash flows.

**Accounting for Medicare and Medicaid Electronic Health Records Incentive Payments:** In July 2010, the Department of Health and Human Services published final regulations implementing the health information technology provisions of the American Recovery and Reinvestment Act. The regulation defines the meaningful use of Electronic Health Records ( EHR ) and established the requirements for the Medicare and Medicaid EHR payment incentive programs. The implementation period for these new Medicare and Medicaid incentive payments started in federal fiscal year 2011 and can end as late as 2016 for Medicare and 2021 for the state Medicaid programs. We recognize income related to Medicare and Medicaid incentive payments using a gain contingency model that is based upon when our eligible hospitals have demonstrated meaningful use of certified EHR technology for the applicable period and the cost report information for the full cost report year that will determine the final calculation of the incentive payment is available.

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**Medicare EHR incentive payments:** Federal regulations require that Medicare EHR incentive payments be computed based on the Medicare cost report that begins in the federal fiscal period in which a hospital meets the applicable meaningful use requirements. Since the annual Medicare cost report periods for each of our acute care hospitals ends on December 31<sup>st</sup>, we will recognize Medicare EHR incentive income for each hospital during the fourth quarter of the year in which the facility meets the meaningful use criteria and during the fourth quarter of each applicable subsequent year.

**Medicaid EHR incentive payments:** Medicaid EHR incentive payments are determined based upon prior period cost report information available at the time our hospitals meet the meaningful use criteria. Therefore, the majority of the Medicaid EHR incentive income recognition occurs in the period in which the applicable hospitals are deemed to have met initial meaningful use criteria. Upon meeting subsequent fiscal year meaningful use criteria, our hospitals may become entitled to additional Medicaid EHR incentive payments which will be recognized as incentive income in future periods. Medicaid EHR incentive payments received prior to our hospitals meeting the meaningful use criteria are included in other current liabilities (as deferred EHR incentive income) in our consolidated balance sheet.

**Self-Insured Risks:** We provide for self-insured risks, primarily general and professional liability claims and workers compensation claims. Our estimated liability for self-insured professional and general liability claims is based on a number of factors including, among other things, the number of asserted claims and reported incidents, estimates of losses for these claims based on recent and historical settlement amounts, estimate of incurred but not reported claims based on historical experience, and estimates of amounts recoverable under our commercial insurance policies. All relevant information, including our own historical experience is used in estimating the expected amount of claims. While we continuously monitor these factors, our ultimate liability for professional and general liability claims could change materially from our current estimates due to inherent uncertainties involved in making this estimate. Our estimated self-insured reserves are reviewed and changed, if necessary, at each reporting date and changes are recognized currently as additional expense or as a reduction of expense. Given our significant self-insured exposure for professional and general liability claims, there can be no assurance that a sharp increase in the number and/or severity of claims asserted against us will not have a material adverse effect on our future results of operations.

As of September 30, 2013, the total accrual for our professional and general liability claims, including the estimated claims related to the facilities acquired from PSI, was \$220 million, of which \$48 million is included in current liabilities. As of December 31, 2012, the total accrual for our professional and general liability claims, including the estimated claims related to the facilities acquired from PSI, was \$279 million, of which \$48 million is included in current liabilities.

During the second quarter of 2013, pursuant to a reserve analysis, we recorded reductions to our professional and general liability self-insurance reserves (relating to years prior to 2013) amounting to \$65 million in the aggregate. The favorable changes in our estimated future claims payments relating to years prior to 2013 were due to: (i) an increased weighting given to company-specific metrics (to 100% from 75%), and decreased general industry metrics (to 0% from 25%), related to projected incidents per exposure, historical claims experience and loss development factors; (ii) historical data which measured the realized favorable impact of medical malpractice tort reform experienced in several states in which we operate, and; (iii) a decrease in claims related to certain higher risk specialties (such as obstetrical) due to a continuation of the company-wide patient safety initiative undertaken during the last several years. As the number of our facilities and our patient volumes have increased, thereby providing for a statistically significant data group, and taking into consideration our long-history of company-specific risk management programs and claims experience, our reserve analyses have included a greater emphasis on our historical professional and general liability experience which has developed favorably as compared to general industry trends.

**Recent Accounting Standards:** For a summary of accounting standards, please see *Note 13 to the Consolidated Financial Statements*, as included herein.

**Table of Contents****Results of Operations****Three-month periods ended September 30, 2013 and 2012:**

The following table summarizes our results of operations and is used in the discussion below for the three-month periods ended September 30, 2013 and 2012 (dollar amounts in thousands):

	Three months ended September 30, 2013		Three months ended September 30, 2012	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues before provision for doubtful accounts	\$ 2,134,740		\$ 1,869,263	
Less: Provision for doubtful accounts	318,371		188,910	
Net revenues	1,816,369	100.0%	1,680,353	100.0%
Operating charges:				
Salaries, wages and benefits	903,212	49.7%	838,075	49.9%
Other operating expenses	393,549	21.7%	362,687	21.6%
Supplies expense	206,995	11.4%	191,747	11.4%
Depreciation and amortization	86,971	4.8%	77,032	4.6%
Lease and rental expense	23,904	1.3%	23,481	1.4%
EHR incentive income	(23,148)	-1.3%	(10,551)	-0.6%
Costs related to extinguishment of debt	0	0.0%	29,170	1.7%
Subtotal-operating expenses	1,591,483	87.6%	1,511,641	90.0%
Income from operations	224,886	12.4%	168,712	10.0%
Interest expense, net	32,314	1.8%	45,207	2.7%
Income before income taxes	192,572	10.6%	123,505	7.3%
Provision for income taxes	69,473	3.8%	42,132	2.5%
Net income	123,099	6.8%	81,373	4.8%
Less: Income attributable to noncontrolling interests	8,512	0.5%	9,556	0.6%
Net income attributable to UHS	\$ 114,587	6.3%	\$ 71,817	4.3%

Net revenues increased 8.1% or \$136 million to \$1.82 billion during the three-month period ended September 30, 2013 as compared to \$1.68 billion during the comparable quarter of 2012. The net increase was attributable to: (i) a \$99 million or 6.0% increase in net revenues generated at our acute care hospitals and behavioral health care facilities owned during both periods (which we refer to as same facility), and; (ii) other combined net increase of \$37 million consisting primarily of the revenues generated during the third quarter of 2013 at the nine behavioral health facilities

acquired from Ascend Health Corporation in October, 2012.

Income before income taxes (before deduction for income attributable to noncontrolling interests) increased \$69 million to \$193 million during the three-month period ended September 30, 2013 as compared to \$124 million during the comparable quarter of 2012. The net increase in our income before income taxes during the third quarter of 2013, as compared to the comparable prior year quarter, was due to:

- a. an increase of \$12 million at our acute care facilities as discussed below in Acute Care Hospital Services, excluding impact of the item mentioned in d. below;
- b. an increase of \$12 million at our behavioral health care facilities, as discussed below in Behavioral Health Services;
- c. an increase of \$13 million due to a decrease in interest expense resulting from a decrease in our average effective interest rate, partially offset by an increase in our average outstanding borrowings;



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- d. an increase of \$5 million related to the incentive income, net of expenses, recorded during the third quarter of 2013, as compared to the third quarter of 2012, in connection with the implementation of EHR applications at our acute care hospitals;
- e. an increase of \$29 million resulting from the write-off deferred financing costs, during the third quarter of 2012, related to the portion of our Term Loan B credit facility that was extinguished at that time, and;
- f. \$2 million of other combined net decreases.

Net income attributable to UHS increased \$43 million to \$115 million during the three-month period ended September 30, 2013 as compared to \$72 million during the comparable quarter of 2012. The increase during the third quarter of 2013, as compared to the comparable prior year quarter, consisted of:

an increase of \$69 million in income before income taxes, as discussed above;

an increase of \$1 million due to a decrease in income attributable to noncontrolling interests, and;

a decrease of \$27 million resulting from an increase in the provision for income taxes resulting primarily from the income tax provision recorded on the \$70 million increase in pre-tax income (\$69 million increase in income before income taxes and the \$1 million increase in income due to a decrease in the income attributable to noncontrolling interests).

**Nine-month periods ended September 30, 2013 and 2012:**

The following table summarizes our results of operations and is used in the discussion below for the nine-month periods ended September 30, 2013 and 2012 (dollar amounts in thousands):

	<b>Nine months ended September 30, 2013</b>		<b>Nine months ended September 30, 2012</b>	
	<b>Amount</b>	<b>% of Net Revenues</b>	<b>Amount</b>	<b>% of Net Revenues</b>
Net revenues before provision for doubtful accounts	\$ 6,294,750		\$ 5,718,676	
Less: Provision for doubtful accounts	811,774		522,203	
Net revenues	5,482,976	100.0%	5,196,473	100.0%
Operating charges:				
Salaries, wages and benefits	2,702,842	49.3%	2,565,052	49.4%
Other operating expenses	1,100,118	20.1%	1,059,048	20.4%
Supplies expense	613,981	11.2%	594,924	11.4%

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Depreciation and amortization	248,465	4.5%	221,807	4.3%
Lease and rental expense	72,651	1.3%	70,906	1.4%
EHR incentive income	(27,943)	-0.5%	(12,506)	-0.2%
Costs related to extinguishment of debt	0	0.0%	29,170	0.6%
Subtotal-operating expenses	4,710,114	85.9%	4,528,401	87.1%
Income from operations	772,862	14.1%	668,072	12.9%
Interest expense, net	110,488	2.0%	137,805	2.7%
Income before income taxes	662,374	12.1%	530,267	10.2%
Provision for income taxes	241,537	4.4%	188,880	3.6%
Net income	420,837	7.7%	341,387	6.6%
Less: Income attributable to noncontrolling interests	34,625	0.6%	33,402	0.6%
Net income attributable to UHS	\$ 386,212	7.0%	\$ 307,985	5.9%

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Net revenues increased 5.5%, or \$287 million, to \$5.48 billion during the nine-month period ended September 30, 2013 as compared to \$5.20 billion during the comparable period of 2012. The net increase was attributable to: (i) a \$195 million or 3.8% increase in net revenues generated at our acute care hospitals and behavioral health care facilities, on a same facility basis, and; (ii) other combined net increase of \$92 million consisting primarily of the revenues generated during the first nine months of 2013 at the nine behavioral health facilities acquired from Ascend Health Corporation in October, 2012, partially offset by other combined net decreases due primarily to \$36 million of net revenues recorded during the first nine months of 2012 resulting from an industry-wide settlement with the United States Department of Health and Human Services, the Secretary of Health and Human Services, and the Centers for Medicare and Medicaid Services, related to underpayments of Medicare inpatient prospective payments during a number of prior years.

Income before income taxes (before deduction for income attributable to noncontrolling interests) increased \$132 million to \$662 million during the nine-month period ended September 30, 2013 as compared to \$530 million during the comparable period of 2012. The net increase in our income before income taxes during the first nine months of 2013, as compared to the comparable prior year period, was due to:

- a. a decrease of \$13 million at our acute care facilities as discussed below in Acute Care Hospital Services, excluding impact of the items mentioned in c., d., g. and j. below;
- b. an increase of \$49 million at our behavioral health care facilities, as discussed below in Behavioral Health Services, excluding the impact of the item mentioned in c., h. and i. below;
- c. an increase of \$65 million resulting from a reduction to our professional and general liability self-insurance reserves relating to years prior to 2013, based upon a reserve analysis (\$51 million is applicable to our acute care hospitals and \$14 million is applicable to our behavioral health care facilities);
- d. a decrease of \$33 million (net of related expenses) resulting from the pre-tax income recorded during the first nine months of 2012 related to the above-mentioned agreement with the United States Department of Health and Human Services, the Secretary of Health and Human Services, and the Centers for Medicare and Medicaid Services;
- e. an increase of \$29 million resulting from the write-off deferred financing costs, during the third quarter of 2012, related to the portion of our Term Loan B credit facility that was extinguished at that time;
- f. an increase of \$27 million due to a decrease in interest expense resulting from a decrease in our average effective interest rate, partially offset by an increase in our average outstanding borrowings;
- g. a net aggregate increase of \$11 million resulting from the following unfavorable items recorded during the first nine months of 2012: (i) the revised Supplemental Security Income ratios utilized for calculating Medicare disproportionate share hospital reimbursements for federal fiscal years 2006 through 2009 (\$7

million unfavorable impact), and; (ii) the write-off of receivables related to revenues recorded during 2011 at two of our acute care hospitals located in Florida resulting from reductions in certain county reimbursements due to reductions in federal matching Inter-Governmental Transfer funds (\$4 million unfavorable impact);

- h. a decrease of \$7 million resulting from the pre-tax income recorded during the first nine months of 2012 representing the 2011 portion of the net Medicaid supplemental reimbursements earned pursuant to the Oklahoma Supplemental Hospital Offset Payment Program;
- i. a decrease of \$6 million consisting of the 2011 portion of net Medicaid supplemental revenues recorded during the first nine months of 2012 related to new programs initiated in certain states in which we operate behavioral health care facilities;
- j. an increase of \$5 million related to the incentive income, net of expenses, recorded during the first nine months of 2013, as compared to the comparable period in 2012, in connection with the implementation of EHR applications at our acute care hospitals;
- k. \$5 million of other combined net increases.

Net income attributable to UHS increased \$78 million, to \$386 million during the nine-month period ended September 30, 2013 as compared to \$308 million during the comparable prior year period. The increase during the first nine months of 2013, as compared to the comparable prior year period, consisted of:

an increase of \$132 million in income before income taxes, as discussed above;

a decrease of \$1 million due to an increase in income attributable to noncontrolling interests, and;

a decrease of \$53 million resulting from an increase in the provision for income taxes resulting primarily from the income tax provision recorded on the \$131 million increase in pre-tax income (\$132 million increase in income before income taxes and the \$1 million decrease in income due to an increase in the income attributable to noncontrolling interests) as well as the income tax provision recorded during the second quarter of 2013 on the gain realized on the sale of Peak Behavioral Health Services (see *Provision for Income Taxes and Effective Tax Rates*).

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**Table of Contents****Acute Care Hospital Services****Same Facility Basis Acute Care Hospitals**

We believe that providing our results on a Same Facility basis, which includes the operating results for facilities owned in both the current year and prior year periods, is helpful to our investors as a measure of our operating performance. Our Same Facility results also neutralize the impact of the reduction to our professional and general liability self-insurance reserves, the impact of the EHR applications and the effect of items that are non-operational in nature including items such as, but not limited to, gains on sales of assets and businesses, impacts of settlements, legal judgments and lawsuits and other amounts that may be reflected in the current or prior year financial statements that relate to prior periods.

The following table summarizes the results of operations for our acute care facilities, on a same facility and all acute care basis, and is used in the discussion below for the three and nine-month periods ended September 30, 2013 and 2012 (dollar amounts in thousands):

<b>Three months ended</b>	<b>Three months ended</b>	<b>Nine months ended</b>	<b>Nine months ended</b>
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