

UNIVERSAL HEALTH SERVICES INC

Form 10-Q

November 06, 2015

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, 2015

OR

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

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

Commission file number 1-10765

UNIVERSAL HEALTH SERVICES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE 23-2077891  
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

UNIVERSAL CORPORATE CENTER

367 SOUTH GULPH ROAD

KING OF PRUSSIA, PENNSYLVANIA 19406

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(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, 2015:

Class A 6,595,308  
Class B 91,189,549  
Class C 663,940  
Class D 23,742

UNIVERSAL HEALTH SERVICES, INC.

INDEX

	PAGE NO.
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. Financial Statements	
<u>Condensed Consolidated Statements of Income—Three and Nine Months Ended September 30, 2015 and 2014</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income—Three and Nine Months Ended September 30, 2015 and 2014</u>	4
<u>Condensed Consolidated Balance Sheets—September 30, 2015 and December 31, 2014</u>	5
<u>Condensed Consolidated Statements of Cash Flows—Nine Months Ended September 30, 2015 and 2014</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	8
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	33
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	60
<u>Item 4. Controls and Procedures</u>	60
<u>PART II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	60
<u>Item 1A. Risk Factors</u>	63
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	63
<u>Item 6. Exhibits</u>	65
<u>Signatures</u>	66
<u>EXHIBIT INDEX</u>	67

This Quarterly Report on Form 10-Q is for the quarter ended September 30, 2015. This Report modifies and supersedes documents filed prior to this Report. Information that we file with the Securities and Exchange Commission (the “SEC”) in the future will automatically update and supersede information contained in this Report.

In this Quarterly Report, “we,” “us,” “our” “UHS” 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 similarly 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.

## PART I. FINANCIAL INFORMATION

## UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(amounts in thousands, except per share amounts)

(unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net revenues before provision for doubtful accounts	\$2,439,071	\$2,196,513	\$7,271,852	\$6,570,732
Less: Provision for doubtful accounts	211,416	157,796	543,640	541,935
Net revenues	2,227,655	2,038,717	6,728,212	6,028,797
Operating charges:				
Salaries, wages and benefits	1,057,226	953,583	3,132,993	2,850,868
Other operating expenses	529,383	533,753	1,571,060	1,394,326
Supplies expense	242,259	222,708	721,979	662,280
Depreciation and amortization	99,442	93,456	295,697	277,506
Lease and rental expense	24,544	23,860	70,631	70,656
Electronic health records incentive income	(356 )	(1,425 )	(1,751 )	(4,029 )
Costs related to extinguishment of debt	0	36,171	0	36,171
	1,952,498	1,862,106	5,790,609	5,287,778
Income from operations	275,157	176,611	937,603	741,019
Interest expense, net	27,130	32,133	84,851	102,413
Income before income taxes	248,027	144,478	852,752	638,606
Provision for income taxes	84,373	48,440	293,371	224,102
Net income	163,654	96,038	559,381	414,504
Less: Income attributable to noncontrolling interests	13,367	13,241	52,602	41,958
Net income attributable to UHS	\$ 150,287	\$ 82,797	\$ 506,779	\$ 372,546
Basic earnings per share attributable to UHS	\$ 1.52	\$ 0.84	\$ 5.12	\$ 3.77
Diluted earnings per share attributable to UHS	\$ 1.48	\$ 0.82	\$ 5.02	\$ 3.71
Weighted average number of common shares - basic	98,858	99,052	98,924	98,832
Add: Other share equivalents	2,301	1,981	1,987	1,643
Weighted average number of common shares and equivalents - diluted	101,159	101,033	100,911	100,475

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

## UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(amounts in thousands, unaudited)

	Three months ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Net income	\$163,654	\$96,038	\$559,381	\$414,504
Other comprehensive income (loss):				
Unrealized derivative gains (losses) on cash flow hedges	(9,888 )	4,712	(4,950 )	12,922
Amortization of terminated hedge	(84 )	(84 )	(252 )	(252 )
Foreign currency translation adjustment	(2,304 )	(2,506 )	(96 )	(2,506 )
Other comprehensive income before tax	(12,276 )	2,122	(5,298 )	10,164
Income tax expense related to items of other comprehensive income	(3,742 )	1,620	(1,530 )	4,685
Total other comprehensive income, net of tax	(8,534 )	502	(3,768 )	5,479
Comprehensive income	155,120	96,540	555,613	419,983
Less: Comprehensive income attributable to noncontrolling interests	13,367	13,241	52,602	41,958
Comprehensive income attributable to UHS	\$141,753	\$83,299	\$503,011	\$378,025

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





## UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, unaudited)

	September 30, December 31,	
	2015	2014
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 39,523	\$ 32,069
Accounts receivable, net	1,328,300	1,282,735
Supplies	112,718	108,115
Deferred income taxes	134,554	114,565
Other current assets	81,459	77,654
Total current assets	1,696,554	1,615,138
Property and equipment	6,515,914	6,212,030
Less: accumulated depreciation	(2,739,822 )	(2,532,341 )
	3,776,092	3,679,689
<b>Other assets:</b>		
Goodwill	3,388,378	3,291,213
Deferred charges	35,113	40,319
Other	310,741	348,084
	\$ 9,206,878	\$ 8,974,443
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Current maturities of long-term debt	\$ 84,883	\$ 68,319
Accounts payable and accrued liabilities	1,102,616	1,113,062
Federal and state taxes	8,697	1,446
Total current liabilities	1,196,196	1,182,827
Other noncurrent liabilities	292,441	268,555
Long-term debt	3,009,954	3,210,215
Deferred income taxes	264,358	282,214
Redeemable noncontrolling interests	250,213	239,552
<b>Equity:</b>		
UHS common stockholders' equity	4,133,099	3,735,946
Noncontrolling interest	60,617	55,134
Total equity	4,193,716	3,791,080
	\$ 9,206,878	\$ 8,974,443

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

5

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## UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands, unaudited)

	Nine months	
	ended September 30,	
	2015	2014
<b>Cash Flows from Operating Activities:</b>		
Net income	\$559,381	\$414,504
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	295,697	277,506
Stock-based compensation expense	30,145	22,713
Gains on sales of assets and businesses, net of losses	(1,037 )	(7,837 )
Write-off of deferred financing costs related to extinguishment of debt	0	19,730
Changes in assets & liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	(60,877 )	(98,193 )
Accrued interest	(297 )	6,547
Accrued and deferred income taxes	(12,568 )	(18,392 )
Other working capital accounts	(54,018 )	59,613
Other assets and deferred charges	6,629	15,868
Other	13,140	(7,000 )
Accrued insurance expense, net of commercial premiums paid	75,715	57,729
Payments made in settlement of self-insurance claims	(55,411 )	(53,234 )
Net cash provided by operating activities	796,499	689,554
<b>Cash Flows from Investing Activities:</b>		
Property and equipment additions, net of disposals	(269,578 )	(309,361 )
Proceeds received from sale of assets and businesses	2,744	15,178
Acquisition of property and businesses	(183,103 )	(402,405 )
Costs incurred for purchase and implementation of electronic health records		
application	0	(11,204 )
Net cash used in investing activities	(449,937 )	(707,792 )
<b>Cash Flows from Financing Activities:</b>		
Reduction of long-term debt	(207,371 )	(842,543 )
Additional borrowings	16,300	969,800
Financing costs	0	(13,413 )
Repurchase of common shares	(129,862 )	(63,292 )
Dividends paid	(29,696 )	(19,794 )
Issuance of common stock	6,030	4,907
Excess income tax benefits related to stock-based compensation	29,287	30,242
Profit distributions to noncontrolling interests	(35,965 )	(25,074 )
Proceeds received from sale/leaseback of real property	12,765	0
Net cash (used in) provided by financing activities	(338,512 )	40,833

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Effect of exchange rate changes on cash and cash equivalents	(596 )	(122 )
Increase in cash and cash equivalents	7,454	22,473
Cash and cash equivalents, beginning of period	32,069	17,238
Cash and cash equivalents, end of period	\$39,523	\$39,711

Supplemental Disclosures of Cash Flow Information:

Interest paid, including early redemption premium and original issue discount write-off in 2014	\$79,866	\$98,670
Income taxes paid, net of refunds	\$274,124	\$212,148
Noncash purchases of property and equipment	\$37,228	\$25,326

6

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

7

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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, 2015. In this Quarterly Report, “we,” “us,” “our” “UHS” 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, 2014.

**Provider Taxes:** We incur health-care related taxes (“Provider Taxes”) imposed by states in the form of a licensing fee, assessment or other mandatory payment which are related to: (i) healthcare items or services; (ii) the provision of, or the authority to provide, the health care items or services, or; (iii) the payment for the health care items or services. Such Provider Taxes are subject to various federal regulations that limit the scope and amount of the taxes that can be levied by states in order to secure federal matching funds as part of their respective state Medicaid programs. We derive a related Medicaid reimbursement benefit from assessed Provider Taxes in the form of Medicaid claims based payment increases and/or lump sum Medicaid supplemental payments.

Under these programs, including the impact of Uncompensated Care and Upper Payment Limit programs, and the Texas Delivery System Reform Incentive program, we earned revenues (before Provider Taxes) of approximately \$62 million and \$53 million during the three-month periods ended September 30, 2015 and 2014, respectively, and approximately \$221 million and \$180 million during the nine-month periods ended September 30, 2015 and 2014, respectively. These revenues were offset by Provider Taxes of approximately \$30 million and \$21 million during the three-month periods ended September 30, 2015 and 2014, respectively, and approximately \$97 million and \$71 million during the nine-month periods ended September 30, 2015 and 2014, respectively, which are recorded in other operating expenses on the Condensed Consolidated Statements of Income as included herein. Prior to 2015, these Provider Taxes were recorded as a reduction to our net revenues. Accordingly, the unaudited Condensed Consolidated Statements of Income for the three and nine-month periods ended September 30, 2014 have been revised to reflect the current period classification, resulting in an increase in net revenue and an increase in other operating expenses of \$21 million and \$71 million, respectively. We assessed this adjustment to the classification and concluded that it was not material to our previously issued annual and quarterly Consolidated Statements of Income, which will be revised in future filings.

**Goodwill and Intangible Assets:** During the quarter-ended September 30, 2015, we changed our annual goodwill and indefinite-lived intangibles testing date from September 1st to October 1st. Management believes that this voluntary change in accounting method is preferable as it aligns the annual impairment testing date with our annual budgeting

process. In connection with this change, we first performed an impairment test as of September 1, 2015, which indicated no impairment of goodwill or indefinite-lived intangible assets, and will perform an additional impairment test as of October 1, 2015. This change in annual testing date does not delay, accelerate or avoid an impairment charge.

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

### Relationship with Universal Health Realty Income Trust:

Universal Health Realty Income Trust (the "Trust") commenced operations in 1986 by purchasing certain properties from us and immediately leasing the properties back to our respective subsidiaries. Most of the leases were entered into at the time the Trust commenced operations and provided for initial terms of 13 to 15 years with up to six additional 5-year renewal terms. Each lease also provided for additional or bonus rental, as discussed below. The base rents are paid monthly and the bonus rents are computed and paid on a quarterly basis, based upon a computation that compares current quarter revenue to a corresponding quarter in the base year. The leases with our subsidiaries are unconditionally guaranteed by us and are cross-defaulted with one another.

At September 30, 2015, we held approximately 5.9% of the outstanding shares of 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 consolidated statements of income, of approximately \$700,000 during each of the three-month periods ended September 30, 2015 and 2014, and approximately \$2.1 million and \$1.9 million during the nine-month periods ended September 30, 2015 and 2014, respectively. Our pre-tax share of income from the Trust was approximately \$100,000 and \$1.7 million during the three-month periods ended September 30, 2015 and 2014, respectively, and approximately \$1.1 million and \$2.1 million for the nine-month periods ended September 30, 2015 and 2014, respectively. Included in our share of the Trust's income for the nine months ended September 30, 2015, is our share of a gain realized by the Trust in connection with a property exchange transaction completed during the second quarter of 2015. Included in our share of the Trust's income for the three and nine-month periods ended September 30, 2014, was approximately \$1.6 million related to our share of an aggregate gain on fair value recognition recorded by the Trust during the first and third quarters of 2014 in connection with its purchase of third-party minority ownership interests in various limited liability companies at which the Trust formerly held noncontrolling majority ownership interests (the Trust now owns 100% of each of these entities). The carrying value of this investment was approximately \$9.0 million and \$9.3 million at September 30, 2015 and December 31, 2014, respectively, and is included in other assets in the accompanying consolidated balance sheets. The market value of our investment in the Trust was \$37.0 million at September 30, 2015 and \$37.9 million at December 31, 2014, based on the closing price of the Trust's stock on the respective dates.

During the first quarter of 2015, wholly-owned subsidiaries of ours sold to and leased back from the Trust, two recently constructed free-standing emergency departments ("FEDs") located in Texas which were completed and opened during the first quarter of 2015. In conjunction with these transactions, ten-year lease agreements with six, five-year renewal options have been executed with the Trust. We have the option to purchase the properties upon the expiration of the fixed terms and each five-year renewal terms at the fair market value of the property. The aggregate construction cost/sales proceeds of these facilities was approximately \$13 million, and the aggregate rent expense paid to the Trust at the commencement of the leases will approximate \$900,000 annually.

In December, 2014, upon the expiration of the lease term, we elected to purchase from the Trust for \$17.3 million, the real property of The Bridgeway, a 103-bed behavioral health care facility located in North Little Rock, Arkansas. Pursuant to the terms of the lease, we and the Trust were both required to obtain appraisals of the property to determine its fair market value/purchase price. The rent expense paid by us to the Trust, prior to our purchase of The Bridgeway's real property in December, 2014, was approximately \$1.1 million annually.

The table below details the renewal options and terms for each of our three acute care hospital facilities leased from the Trust as of September 30, 2015:

Hospital Name	Annual		Renewal
	Minimum	End of Lease Term	Term
McAllen Medical Center	\$5,485,000	December, 2016	15(a)
Wellington Regional Medical Center	\$3,030,000	December, 2016	15(b)
Southwest Healthcare System, Inland Valley Campus	\$2,648,000	December, 2016	15(b)

(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).

Total rent expense under the operating leases on these three hospital facilities was approximately \$4 million during each of the three months ended September 30, 2015 and 2014, and approximately \$12 million for each of the nine-month periods ended September 30, 2015 and 2014. In addition, certain of our subsidiaries are tenants in several medical office buildings and two FEDs (as discussed above) owned by the Trust or by limited liability companies in which the Trust holds 100% of the ownership interest.

Pursuant to the terms of the three hospital leases with the Trust, we have the option to renew the leases at the lease terms described above by providing notice to the Trust at least 90 days prior to the termination of the then current term. We also have the right to purchase the respective leased hospitals at the end of the lease terms or any renewal terms at their appraised fair market value as well as purchase any or all of the three leased hospital properties at their appraised fair market value upon one month's notice should a change of control of the Trust occur. In addition, we have rights of first refusal to: (i) purchase the respective leased facilities during and for 180 days after the lease terms at the same price, terms and conditions of any third-party offer, or; (ii) renew the lease on the respective leased facility at the end of, and for 180 days after, the lease term at the same terms and conditions pursuant to any third-party offer.

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 ("CEO") and his wife. As a result of these agreements, based on actuarial tables and other 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. In connection with these policies, we paid approximately \$1.3 million in annual premium payments during each of 2015 and 2014.

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 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 and deferred compensation liabilities, and liabilities incurred in connection with split-dollar life insurance agreements on the lives of our chief executive officer and his wife.

Outside owners hold noncontrolling, minority ownership interests of: (i) approximately 28% in our six acute care facilities located in Las Vegas, Nevada (including one facility currently under construction); (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 \$250 million as of September 30, 2015 and \$240 million as of December 31, 2014, and the noncontrolling interest balances of \$61 million as of September 30, 2015 and \$55 million as of December 31, 2014, consist primarily of the third-party ownership interests in these hospitals.

In connection with six acute care facilities located in Las Vegas, Nevada (including one facility currently under construction), 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, if exercisable, and 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 a behavioral health care facility located in Philadelphia, Pennsylvania and acquired by us as part of the PSI acquisition, 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.

(4) Long-term debt and cash flow hedges

Debt:

During the third quarter of 2014, we completed the following financing transactions:

- In August, 2014, we entered into a fourth amendment to our credit agreement dated as of November 15, 2010, as amended (“Credit Agreement”). The Credit Agreement, which is scheduled to mature in August, 2019, consists of: (i) an \$800 million revolving credit facility (no borrowings outstanding as of September 30, 2015), and; (ii) a \$1.775 billion term loan A facility (\$1.731 billion of borrowings outstanding as of September 30, 2015) which combined our previously outstanding term loan A and term loan A2 facilities which were scheduled to mature in 2016;
- Repaid \$550 million of outstanding borrowings pursuant to our previously outstanding term loan B facility which was scheduled to mature in 2016;
- Increased the borrowing capacity on our existing accounts receivable securitization program (“Securitization”) to \$360 million from \$275 million, effective August 1, 2014. The Securitization, the terms of which remain the same as the previous agreement, as discussed below, is scheduled to mature in October, 2016;
- Issued \$300 million aggregate principal amount of 3.750% senior secured notes due in 2019 (see below for additional disclosure);

- Issued \$300 million aggregate principal amount of 4.750% senior secured notes due in 2022 (see below for additional disclosure);
- Redeemed our previously outstanding \$250 million, 7.00% senior unsecured notes due in 2018 on July 31, 2014 for an aggregate price equal to 104.56% of the principal amount.

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 and term loan-A 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 and term loan-A borrowings. As of September 30, 2015, the applicable margins were 0.50% for ABR-based loans, 1.50% for LIBOR-based loans under the revolving credit and term loan-A facilities.

As of September 30, 2015, we had no borrowings outstanding pursuant to the terms of our \$800 million revolving credit facility and we had \$744 million of available borrowing capacity, net of \$17 million of outstanding borrowings pursuant to a short-term, on-demand credit facility and \$39 million of outstanding letters of credit. The revolving credit facility includes a \$125 million sub-limit for letters of credit. The Credit Agreement is secured by certain assets of the Company and our material subsidiaries and guaranteed by our material subsidiaries.

Pursuant to the terms of the Credit Agreement, term loan-A quarterly installment payments of approximately: (i) \$11 million commenced during the fourth quarter of 2014 and are scheduled to continue through September, 2016, and; (ii) \$22 million are scheduled from the fourth quarter of 2016 through June, 2019.

As discussed above, on August 1, 2014, our accounts receivable securitization program ("Securitization"), with a group of conduit lenders and liquidity banks which is scheduled to mature in October, 2016, was amended to increase the borrowing capacity to \$360 million from \$275 million. 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, 2015, we had \$300 million of outstanding borrowings and \$60 million of additional capacity pursuant to the terms of our accounts receivable securitization program.

On August 7, 2014, we issued \$300 million aggregate principal amount of 3.750% Senior Secured Notes due 2019 (the "2019 Notes") and \$300 million aggregate principal amount of 4.750% Senior Secured Notes due 2022 (the "2022 Notes", and together with the 2019 Notes, the "New Senior Secured Notes"). The New Senior Secured Notes were offered only to qualified institutional buyers under Rule 144A and to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act of 1933, as amended (the "Securities Act"). The New Senior Secured Notes have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. Interest is payable on the New Senior Secured Notes on February 1 and August 1 of each year to the holders of record at the close of business on the January 15 and July 15 immediately preceding the related interest payment dates, commencing on February 1, 2015 until the maturity date of August 1, 2019 for the 2019 Notes and August 1, 2022 for the 2022 Notes.

On June 30, 2006, we issued \$250 million of senior secured 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. Since we have the ability and intent to refinance the 7.125% Notes on or before the scheduled maturity date (June 30, 2016) either through the issuance of new long-term notes, a new long-term debt facility, or utilizing funds borrowed pursuant to our revolving credit facility, the 7.125% Notes are classified as long-term on our Consolidated Balance Sheet as of September 30, 2015.

On July 31, 2014, we redeemed the \$250 million, 7.00% senior unsecured notes (the “Unsecured Notes”), which were scheduled to mature on October 1, 2018, at a redemption price equal to 104.56% of the principal amount of the Unsecured Notes resulting in a make-whole premium payment of approximately \$11 million. The Unsecured Notes were issued on September 29, 2010 and

registered in April, 2011. Interest on the Unsecured Note was payable semiannually in arrears on April 1st and October 1st of each year.

In connection with entering into the previous 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, dividends and stock repurchases; 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, 2015.

As of September 30, 2015, the carrying value of our debt was \$3.1 billion and the fair-value of our debt was \$3.1 billion. The fair value of our debt was computed based upon quotes received from financial institutions. 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 2014 and the first nine months of 2015 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, 2015 and December 31, 2014, each swap agreement entered into by us was in a net liability position which would require us to make the 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.

Seven interest rate swaps on a total notional amount of \$825 million matured in May, 2015. Four of these swaps, with a total notional amount of \$600 million, became effective in December, 2011 and provided that we receive three-month LIBOR while the average fixed rate payable was 2.38%. The remaining three swaps, with a total notional amount of \$225 million, became effective in March, 2011 and provided that we receive three-month LIBOR while the average fixed rate payable was 1.91%.

During the second quarter of 2015, we entered into four forward starting interest rate swaps whereby we pay a fixed rate on a total notional amount of \$500 million and receive one-month LIBOR. Each of the four swaps became effective on July 15, 2015 and are scheduled to mature on April 15, 2019. The average fixed rate payable on these swaps is 1.40%.



During the third quarter of 2015, we entered into four additional forward starting interest rate swaps whereby we pay a fixed rate on a total notional amount of \$400 million and receive one-month LIBOR. One swap on a notional amount of \$100 million became effective on July 15, 2015, two swaps on a total notional amount of \$200 million became effective on September 15, 2015 and another swap on a notional amount of \$100 million becomes effective on December 15, 2015. All of these swaps are scheduled to mature on April 15, 2019. The average fixed rate payable on these four swaps is 1.23%.

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 a liability of \$11 million at September 30, 2015, of which \$8 million is included in other current liabilities and \$3 million is included in other noncurrent liabilities. The fair value of our interest rate swaps was a liability of \$6 million at December 31, 2014, all of which is included in other current liabilities.

#### (5) Commitments and Contingencies

##### Professional and General Liability and Workers Compensation Liability:

Effective November, 2010, excluding certain subsidiaries acquired since 2010 as discussed below, the vast majority of our subsidiaries are self-insured for professional and general liability exposure up to \$10 million and \$3 million per occurrence, respectively. Our 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 \$250 million per occurrence and in the aggregate for claims incurred in 2015 and 2014 and up to \$200 million per occurrence and in the aggregate for claims incurred from 2011 through 2013. 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.

Since our acquisition of Psychiatric Solutions, Inc. (“PSI”) in November, 2010, the former PSI subsidiaries are self-insured for professional and general liability exposure up to \$3 million per occurrence. The nine behavioral health facilities acquired from Ascend Health Corporation (“Ascend”) in October, 2012 have general and professional liability policies through commercial insurance carriers which provide for up to \$12 million of aggregate coverage, subject to a \$100,000 per occurrence deductible. The 21 behavioral health care facilities located in the U.K. have policies through a commercial insurance carrier located in the U. K. that provides for £10 million of professional liability coverage and £25 million of general liability coverage. The facilities acquired from PSI, Ascend and the facilities located in the U.K., like our other facilities, are also provided excess coverage through commercial insurance carriers for coverage in excess of the underlying commercial policy limitations, as mentioned above.

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, 2015, the total accrual for our professional and general liability claims was \$210 million, of which \$51 million is included in current liabilities. As of December 31, 2014, the total accrual for our professional and general liability claims was \$193 million, of which \$51 million is included in current liabilities.

As of September 30, 2015, the total accrual for our workers' compensation liability claims was \$70 million, of which \$32 million is included in current liabilities. As of December 31, 2014, the total accrual for our workers' compensation liability claims was \$67 million, of which \$32 million is included in current liabilities.

Property Insurance:

We have commercial property insurance policies for our properties covering catastrophic losses, including windstorm damage, up to a \$1 billion policy limit per occurrence, subject to a deductible ranging from \$50,000 to \$250,000 per occurrence. 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, subject to a \$25,000 deductible. Non-critical flood losses have either a \$250,000 or \$500,000 deductible, based upon the location of the facility. Since certain of our facilities have been designated by our insurer as flood prone, we have elected to purchase policies from The National Flood Insurance Program to cover a substantial portion of the applicable deductible. Property insurance for the facilities acquired from Cygnet are provided on an all risk basis up to a £180 million limit that includes coverage for real and personal property as well as business interruption losses.

#### Other

Our accounts receivable as of September 30, 2015 and December 31, 2014 include amounts due from Illinois of approximately \$24 million and \$44 million, respectively. Collection of the outstanding receivables continues to be delayed due to state budgetary and funding pressures. Approximately \$8 million as of September 30, 2015 and \$23 million as of December 31, 2014, of the receivables due from Illinois were outstanding in excess of 60 days, as of each respective date. In addition, our accounts receivable as of September 30, 2015 and December 31, 2014 includes approximately \$83 million and \$102 million, respectively, due from Texas in connection with Medicaid supplemental payment programs. The \$83 million due from Texas as of September 30, 2015 consists of \$63 million related to uncompensated care program revenues (\$31 million of which was subsequently received in October, 2015) and \$20 million related to Delivery Service Reform Incentive Payment program revenues. Although the accounts receivable due from Illinois and Texas 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 and/or Texas. Failure to ultimately collect all outstanding amounts due from these states would have an adverse impact on our future consolidated results of operations and cash flows.

As of September 30, 2015 we were party to certain off balance sheet arrangements consisting of standby letters of credit and surety bonds which totaled \$125 million consisting of: (i) \$96 million related to our self-insurance programs, and; (ii) \$29 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 various government investigations, regulatory matters and litigation, as outlined below.

##### Office of Inspector General (“OIG”) and Government Investigations:

In February, 2013, the Office of Inspector General for the United States Department of Health and Human Services (“OIG”) served a subpoena requesting various documents from January, 2008 to the date of the subpoena directed at Universal Health Services, Inc. (“UHS”) concerning it and UHS of Delaware, Inc., and several UHS owned behavioral health facilities including: Keys of Carolina, Old Vineyard Behavioral Health, The Meadows Psychiatric Center, Streamwood Behavioral Health, Hartgrove Hospital, 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 DOJ of its intent to proceed with an investigation following requests for documents for the period of January, 2007 to the date of the subpoenas 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 date of the subpoena, and; (iii) The Meadows Psychiatric Center received a subpoena from the OIG in February, 2013 requesting certain documents from 2008 to the date of the subpoena. Unrelated to these matters, the Keys of Carolina was closed and the real property was sold in January, 2013. We were advised that a qui tam action had been filed against Roxbury Treatment Center

but the government declined to intervene and the case was dismissed.

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 date of the subpoenas. In July, 2013, another subpoena was issued to Wekiva Springs Center and River Point Behavioral Health requesting additional records. In October, 2013, we were advised by the DOJ's Criminal Frauds Section that they received a referral from the DOJ Civil Division and opened an investigation of River Point Behavioral Health and Wekiva Springs Center. Subsequent subpoenas have since been issued to River Point Behavioral Health and Wekiva Springs Center requesting additional documentation. In April, 2014, the Centers for Medicare and Medicaid Services ("CMS") instituted a Medicare payment suspension at River Point Behavioral Health in accordance with federal regulations regarding suspension of payments during certain investigations. The Florida Agency for Health Care Administration subsequently issued a Medicaid payment suspension for the facility. River Point Behavioral Health submitted a rebuttal statement disputing the basis of the suspension and requesting revocation of the suspension. Notwithstanding, CMS continued the payment suspension. River Point Behavioral Health provided additional information to CMS in an effort to obtain relief from the payment suspension but the suspension remains in effect. In August, 2015, we received notification from CMS that the payment suspension will be continued for another 180 days. We cannot

predict if and/or when the facility's suspended payments will resume. Although the operating results of River Point Behavioral Health did not have a material impact on our consolidated results of operations during the nine-month period ended September 30, 2015 or the year ended December 31, 2014, the payment suspension has had a material adverse effect on the facility's results of operations and financial condition.

In June, 2013, the OIG served a subpoena on Coastal Harbor Health System in Savannah, Georgia requesting documents from January, 2009 to the date of the subpoena.

In February, 2014, we were notified that the investigation conducted by the Criminal Frauds Section had been expanded to include the National Deaf Academy. In March, 2014, a Civil Investigative Demand ("CID") was served on the National Deaf Academy requesting documents and information from the facility from January 1, 2008 through the date of the CID. We have been advised by the government that the National Deaf Academy has been added to the facilities which are the subject of the coordinated investigation referenced above.

In March, 2014, CIDs were served on Hartgrove Hospital, Rock River Academy and Streamwood Behavioral Health requesting documents and information from those facilities from January, 2008 through the date of the CID.

In September, 2014, the DOJ Civil Division advised us that they were expanding their investigation to include four additional facilities and were requesting production of documents from these facilities. These facilities are Arbour-HRI Hospital, Behavioral Hospital of Bellaire, St. Simons by the Sea, and Turning Point Care Center.

In December 2014, the DOJ Civil Division requested that Salt Lake Behavioral Health produce documents responsive to the original subpoenas issued in February, 2013.

In March, 2015, the OIG issued subpoenas to Central Florida Behavioral Hospital and University Behavioral Center requesting certain documents from January, 2008 to the date of the subpoena.

In late March, 2015, we were notified that the investigation conducted by the Criminal Frauds Section has been expanded to include UHS as a corporate entity arising out of the coordinated investigation of the facilities described above and, in particular, Hartgrove Hospital.

The DOJ has advised us that the civil aspect of the coordinated investigation referenced above is a False Claim Act investigation focused on billings submitted to government payers in relation to services provided at those facilities. At present, we are uncertain as to potential liability and/or financial exposure of the Company and/or named facilities, if any, in connection with these matters.

#### Regulatory Matters:

On July 23, 2015, Timberlawn Mental Health System ("Timberlawn") received notification from CMS of its intent to terminate Timberlawn's Medicare provider agreement effective August 7, 2015. This notification resulted from surveys conducted which alleged that Timberlawn was out of compliance with conditions of participation required for participation in the Medicare/Medicaid program. We filed a request for expedited administrative appeal with the U.S. Department of Health and Human Services, Departmental Appeals Board, Civil Remedies Division, seeking review and reversal of the termination action. In conjunction with the administrative appeal, we filed litigation in the U.S. District Court for the Northern District of Texas seeking a temporary restraining order and preliminary injunction to have the termination stayed pending the conclusion of the administrative appeal. The trial court denied Timberlawn's request for a temporary restraining order and dismissed the case. Timberlawn's provider agreement was terminated effective August 14, 2015. In September, 2015 Timberlawn reached an agreement with CMS relative to its reapplication to the Medicare/Medicaid program. In exchange, Timberlawn agreed to dismiss its administrative appeal as well as not to pursue an appeal of the decision of the trial court. During this time, Timberlawn has remained open. Although the operating results of Timberlawn did not have a material impact on our consolidated results of

operations or financial condition for the nine-month period ended September 30, 2015 or the year ended December 31, 2014, the termination of Timberlawn's provider agreement has had a material adverse effect on the facility's results of operations and financial condition.

During the second quarter of 2015, Texoma Medical Center ("Texoma"), which includes TMC Behavioral Health Center, entered into a Systems Improvement Agreement ("SIA") with CMS. The SIA abated a termination action from CMS following surveys which identified alleged failures to comply with conditions of participation primarily involving Texoma's behavioral health operations. The terms of the SIA required Texoma to engage independent consultants/experts approved by CMS to analyze and develop implementation plans at Texoma to meet Medicare conditions of participation. At the conclusion of the SIA, CMS will conduct a full certification survey to determine if Texoma is in substantial compliance with the Medicare conditions of participation. The term of agreement is set to conclude October 2, 2016 unless the terms of the agreement are fulfilled earlier. During the term of the SIA,

Texoma remains eligible to receive reimbursements from Medicare and Medicaid for services rendered to Medicare and Medicaid beneficiaries.

Other Matters:

In late September, 2015, many hospitals in Pennsylvania, including seven of our behavioral health care hospitals located in the state, received letters from the Pennsylvania Department of Public Welfare (“DPW”) demanding repayment of allegedly excess Medicaid Disproportionate Share Hospital payments (“DSH”) for the federal fiscal year 2011 (“FFY2011”) amounting to approximately \$4 million in the aggregate. We have engaged legal counsel to pursue all available legal and administrative remedies to appeal and contest the repayments since we believe DPW’s calculation methodology is inaccurate and conflicts with applicable federal and state laws and regulations. However, if DPW is ultimately successful in its demand related to FFY2011, it could take similar action with regards to FFY2012 through FFY2014. Due to a change in the Pennsylvania Medicaid State Plan and implementation of a CMS-approved Medicaid Section 1115 Waiver, we do not believe the methodology applied by DPW to FFY2011 is applicable to reimbursements received for Medicaid services provided after January 1, 2015 by our behavioral health care facilities located in Pennsylvania. We can provide no assurance that we will ultimately be successful in our legal and administrative appeals related to DPW’s repayment demands. If our legal and administrative appeals are unsuccessful, our future consolidated results of operations and financial condition could be adversely impacted by these repayments.

Matters Relating to Psychiatric Solutions, Inc. (“PSI”):

The following matters pertain to PSI or former PSI facilities (owned by subsidiaries of PSI) 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.

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 were 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 also been delivered to the DOJ. All documents requested and produced pertained to the operations of the facility while under PSI’s ownership prior to our acquisition. 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. All documents requested and produced pertained to the operations of the facility while under PSI’s ownership prior to our acquisition. 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.

General:

We operate in a highly regulated and litigious industry which subjects us to various claims and lawsuits in the ordinary course of business as well as regulatory proceedings and government investigations. These claims or suits include claims for damages for personal injuries, medical malpractice, commercial/contractual disputes, wrongful restriction of, or interference with, physicians’ staff privileges, and employment related claims. In addition, health care companies are subject to investigations and/or actions by various state and federal governmental agencies or those

bringing claims on their behalf. Government action has increased with respect to investigations and/or allegations against healthcare providers concerning possible violations of fraud and abuse and false claims statutes as well as compliance with clinical and operational regulations. Currently, and from time to time, we and some of our facilities are subjected to inquiries in the form of subpoenas, Civil Investigative Demands, audits and other document requests from various federal and state agencies. These inquiries can lead to notices and/or actions including repayment obligations from state and federal government agencies associated with potential non-compliance with laws and regulations. Further, the federal False Claim Act allows private individuals to bring lawsuits (qui tam actions) against healthcare providers that submit claims for payments to the government. Various states have also adopted similar statutes. When such a claim is filed, the government will investigate the matter and decide if they are going to intervene in the pending case. These qui tam lawsuits are placed under seal by the court to comply with the False Claims Act's requirements. If the government chooses not to intervene, the private individual(s) can proceed independently on behalf of the government. Health care providers that are found to violate the False Claims Act may be subject to substantial monetary fines/penalties as well as face potential exclusion from participating in government health care programs or be required to comply with Corporate Integrity Agreements as a condition of a settlement of a False Claim Act matter. In September 2014, the Criminal Division of the DOJ, announced that all qui tam cases will be shared with their Division to determine if a parallel criminal investigation should be opened. The DOJ has also announced an intention to pursue civil and criminal actions against individuals



within a company as well as the corporate entity or entities. In addition, health care facilities are subject to monitoring by state and federal surveyors to ensure compliance with program Conditions of Participation. In the event a facility is found to be out of compliance with a Condition of Participation and unable to remedy the alleged deficiency(s), the facility faces termination from the Medicare and Medicaid programs or compliance with a System Improvement Agreement to remedy deficiencies and ensure compliance.

The laws and regulations governing the healthcare industry are complex covering, among other things, government healthcare participation requirements, licensure, certification and accreditation, privacy of patient information, reimbursement for patient services as well as fraud and abuse compliance. These laws and regulations are constantly evolving and expanding. Further, the Affordable Care Act has added additional obligations on healthcare providers to report and refund overpayments by government healthcare programs and authorizes the suspension of Medicare and Medicaid payments “pending an investigation of a credible allegation of fraud.” We monitor our business and have developed an ethics and compliance program with respect to these complex laws, rules and regulations. Although we believe our policies, procedures and practices comply with government regulations, there is no assurance that we will not be faced with the sanctions referenced above which include fines, penalties and/or substantial damages, repayment obligations, payment suspensions, licensure revocation, and expulsion from government healthcare programs. Even if we were to ultimately prevail in any action brought against us or our facilities or in responding to any inquiry, such action or inquiry 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

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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, 2014.

	Three months ended September 30, 2015			
	Acute Care		Behavioral	
	Hospital Services	Health Services	Other	Total Consolidated
	(Amounts in thousands)			
Gross inpatient revenues	\$4,115,598	\$1,876,896	\$-	\$ 5,992,494
Gross outpatient revenues	\$2,444,456	\$202,333	\$-	\$ 2,646,789
Total net revenues	\$1,136,341	\$1,089,509	\$1,805	\$ 2,227,655
Income/(loss) before allocation of corporate overhead and income taxes	\$91,784	\$249,812	\$(93,569 )	\$ 248,027
Allocation of corporate overhead	\$(49,426 )	\$(29,526 )	\$78,952	\$ 0
Income/(loss) after allocation of corporate overhead and before income taxes	\$42,358	\$220,286	\$(14,617 )	\$ 248,027
Total assets as of September 30, 2015	\$3,391,193	\$5,458,647	\$357,038	\$ 9,206,878

17

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	Nine months ended September 30, 2015			
	Acute Care		Behavioral	
	Hospital	Health	Total	
	Services	Services	Other	Consolidated
	(Amounts in thousands)			
Gross inpatient revenues	\$12,633,298	\$5,565,391	\$-	\$18,198,689
Gross outpatient revenues	\$7,132,212	\$623,915	\$16,111	\$7,772,238
Total net revenues	\$3,446,797	\$3,272,714	\$8,701	\$6,728,212
Income/(loss) before allocation of corporate overhead and				
income taxes	\$387,568	\$771,667	\$(306,483)	\$852,752
Allocation of corporate overhead	\$(148,274)	\$(88,913)	\$237,187	\$0
Income/(loss) after allocation of corporate overhead and				
before income taxes	\$239,294	\$682,754	\$(69,296)	\$852,752
Total assets as of September 30, 2015	\$3,391,193	\$5,458,647	\$357,038	\$9,206,878

	Three months ended September 30, 2014			
	Acute Care		Behavioral	
	Hospital	Health	Total	
	Services	Services	Other	Consolidated
	(Amounts in thousands)			
Gross inpatient revenues	\$3,616,647	\$1,678,222	\$-	\$5,294,869
Gross outpatient revenues	\$2,058,148	\$192,032	\$8,972	\$2,259,152
Total net revenues	\$1,042,647	\$992,461	\$3,609	\$2,038,717
Income/(loss) before allocation of corporate overhead and				
income taxes	\$100,388	\$228,710	\$(184,620)	\$144,478
Allocation of corporate overhead	\$(44,698)	\$(24,750)	\$69,448	\$0
Income/(loss) after allocation of corporate overhead				
and before income taxes	\$55,690	\$203,960	\$(115,172)	\$144,478
Total assets as of September 30, 2014	\$3,321,166	\$5,429,453	\$210,973	\$8,961,592

	Nine months ended September 30, 2014			
	Acute Care		Behavioral	
	Hospital	Health	Total	
	Services	Services	Other	Consolidated
	(Amounts in thousands)			
Gross inpatient revenues	\$11,217,320	\$4,973,633	\$-	\$16,190,953
Gross outpatient revenues	\$6,083,715	\$580,627	\$25,821	\$6,690,163

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Total net revenues	\$3,054,359	\$2,964,047	\$10,391	\$6,028,797
Income/(loss) before allocation of corporate overhead and				
income taxes	\$330,382	\$693,399	\$(385,175)	\$638,606
Allocation of corporate overhead	\$(134,088)	\$(74,055)	\$208,143	\$0
Income/(loss) after allocation of corporate overhead and				
before income taxes	\$196,294	\$619,344	\$(177,032)	\$638,606
Total assets as of September 30, 2014	\$3,321,166	\$5,429,453	\$210,973	\$8,961,592

(7) Earnings Per Share Data (“EPS”) and Stock Based Compensation

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.

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The following table sets forth the computation of basic and diluted earnings per share for classes A, B, C and D common stockholders for the periods indicated (in thousands, except per share data):

	Three months ended		Nine months ended	
	September 30, (amounts in thousands)		September 30,	
	2015	2014	2015	2014
<b>Basic and Diluted:</b>				
Net income attributable to UHS	\$ 150,287	\$ 82,797	\$ 506,779	\$ 372,546
Less: Net income attributable to unvested restricted share grants	(82 )	(17 )	(221 )	(164 )
Net income attributable to UHS – basic and diluted	\$ 150,205	\$ 82,780	\$ 506,558	\$ 372,382
Weighted average number of common shares - basic	98,858	99,052	98,924	98,832
Net effect of dilutive stock options and grants based on the treasury stock method	2,301	1,981	1,987	1,643
Weighted average number of common shares and equivalents - diluted	101,159	101,033	100,911	100,475
Earnings per basic share attributable to UHS:	\$ 1.52	\$ 0.84	\$ 5.12	\$ 3.77
Earnings per diluted share attributable to UHS:	\$ 1.48	\$ 0.82	\$ 5.02	\$ 3.71

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 months ended September 30, 2015. The excluded weighted-average stock options totaled 987,000 for the nine months ended September 30, 2015. There were no significant anti-dilutive stock options during the three and nine months ended September 30, 2014. All classes of our common stock have the same dividend rights.

**Stock-Based Compensation:** During the three-month periods ended September 30, 2015 and 2014, compensation cost of \$9.2 million and \$7.5 million, respectively, was recognized related to outstanding stock options. During the nine-month periods ended September 30, 2015 and 2014, compensation cost of \$28.7 million and \$21.7 million, respectively, was recognized related to outstanding stock options. In addition, during the three-month periods ended September 30, 2015 and 2014, compensation cost of approximately \$304,000 and \$274,000, respectively, was recognized related to restricted stock. During the nine-month periods ended September 30, 2015 and 2014, compensation cost of approximately \$796,000 and \$921,000, respectively, was recognized related to restricted stock. As of September 30, 2015 there was \$76.4 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 2.9 years. There were 2,940,850 stock options granted (net of cancellations) during the first nine months of 2015 with a weighted-average grant date fair value of \$21.33 per share.

The expense associated with share-based compensation arrangements is a non-cash charge. In the Consolidated Statements of Cash Flows, share-based compensation expense is an adjustment to reconcile net income to cash provided by operating activities and aggregated to \$30.1 million and \$22.7 million during the nine-month periods ended September 30, 2015 and 2014, respectively. In accordance with ASC 718, excess income tax benefits related to

stock based compensation are classified as cash inflows from financing activities on the Consolidated Statement of Cash Flows. During the first nine months of 2015 and 2014, we generated \$29.3 million and \$30.2 million, respectively, of excess income tax benefits related to stock based compensation which are reflected as cash inflows from financing activities in our Consolidated Statements of Cash Flows.

(8) Dispositions and acquisitions

Acquisition subsequent to September 30, 2015:

In October, 2015, we completed the acquisition of Foundations Recovery Network, LLC (“Foundations”) for a purchase price of approximately \$350 million. Through this acquisition, we have added 4 inpatient facilities consisting of 322 beds as well as 8 outpatient centers. In addition, there are over 140 expansion beds in progress. Foundations is focused on treating adults with co-occurring addiction and mental health disorders through an evidence-based, integrated treatment model in residential and outpatient settings.

Nine-month period ended September 30, 2015:

Acquisitions:

During the first nine months of 2015, we paid approximately \$183 million to acquire: (i) a 46-bed behavioral health care facility located in the U.K. (acquired during the first quarter); (ii) Alpha Hospitals Holdings Limited consisting of four behavioral health care hospitals with 305 beds located in the U.K. (acquired during the third quarter), and; (iii) various other businesses, a management contract and real property assets.

Divestitures:

During the first nine months of 2015, we received approximately \$3 million related to the divestiture of a small operator of behavioral health care services (sold during the third quarter). The pre-tax gain realized on this divestiture did not have a material impact on our consolidated financial statements.

Nine-month period ended September 30, 2014:

Acquisitions:

During the first nine months of 2014, we spent \$402 million to: (i) acquire the stock of Cygnet Health Care Limited (16 behavioral health care facilities located throughout the U.K.); (ii) acquire and fund the required capital reserves related to a commercial health insurer headquartered in Reno, Nevada; (iii) acquire a 124-bed behavioral health care facility and outpatient treatment center located in Washington, D.C., and; (iv) acquire a 48-bed behavioral health facility in Tucson, Arizona.

Divestitures:

During the first nine months of 2014, we received approximately \$15 million of cash proceeds for the divestiture of a non-operating investment and the real property of a closed behavioral health care facility. The divestiture of the non-operating investment (sold during the first quarter of 2014) resulted in a pre-tax gain of approximately \$10 million which is included in our consolidated results of operations during the nine-month period ended September 30, 2014.

(9) Dividends

We declared and paid dividends of \$9.9 million, or \$.10 per share, during each of the three-month periods ended September 30, 2015 and 2014. We declared and paid dividends of \$29.7 million and \$19.8 million during the

nine-month periods ended September 30, 2015 and 2014, respectively.

(10) Income Taxes

As of January 1, 2015, our unrecognized tax benefits were approximately \$2 million. The amount, if recognized, that would affect the effective tax rate is approximately \$2 million. During the quarter ended September 30, 2015, 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, 2015, we have less than \$1 million of accrued interest and penalties. The U.S. federal statute of limitations remains open for the 2012 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 amount of uncertain tax benefits will change during the next 12 months, however, it is anticipated that any such change, if it were to occur, would not have a material impact on our results of operations.

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.



(11) 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.

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, 2015

(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net revenues before provision for doubtful accounts	\$0	\$1,688,939	\$758,095	\$ (7,963 )	\$ 2,439,071
Less: Provision for doubtful accounts	0	135,897	75,519	0	211,416
Net revenues	0	1,553,042	682,576	(7,963 )	2,227,655
Operating charges:					
Salaries, wages and benefits	0	754,069	303,157	0	1,057,226
Other operating expenses	0	361,965	174,947	(7,529 )	529,383
Supplies expense	0	143,296	98,963	0	242,259
Depreciation and amortization	0	69,875	29,567	0	99,442
Lease and rental expense	0	15,261	9,717	(434 )	24,544
Electronic health records incentive income	0	(356 )	0	0	(356 )
	0	1,344,110	616,351	(7,963 )	1,952,498
Income from operations	0	208,932	66,225	0	275,157
Interest expense	25,543	1,173	414	0	27,130
Interest (income) expense, affiliate	0	23,054	(23,054 )	0	0
Equity in net income of consolidated affiliates	(166,054)	(40,178 )	0	206,232	0
Income before income taxes	140,511	224,883	88,865	(206,232 )	248,027
Provision for income taxes	(9,776 )	74,531	19,618	0	84,373
Net income	150,287	150,352	69,247	(206,232 )	163,654
Less: Income attributable to noncontrolling interests	0	0	13,367	0	13,367
Net income attributable to UHS	\$150,287	\$150,352	\$55,880	\$ (206,232 )	\$150,287

## UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATING STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net revenues before provision for doubtful accounts	\$0	\$5,040,823	\$2,254,656	\$ (23,627 )	\$ 7,271,852
Less: Provision for doubtful accounts	0	357,095	186,545	0	543,640
Net revenues	0	4,683,728	2,068,111	(23,627 )	6,728,212
Operating charges:					
Salaries, wages and benefits	0	2,239,853	893,140	0	3,132,993
Other operating expenses	0	1,080,690	512,869	(22,499 )	1,571,060
Supplies expense	0	430,288	291,691	0	721,979
Depreciation and amortization	0	208,577	87,120	0	295,697
Lease and rental expense	0	43,160	28,599	(1,128 )	70,631
Electronic health records incentive income	0	(1,751 )	0	0	(1,751 )
	0	4,000,817	1,813,419	(23,627 )	5,790,609
Income from operations	0	682,911	254,692	0	937,603
Interest expense	80,087	3,566	1,198	0	84,851
Interest (income) expense, affiliate	0	69,163	(69,163 )	0	0
Equity in net income of consolidated affiliates	(556,213)	(160,481 )	0	716,694	0
Income before income taxes	476,126	770,663	322,657	(716,694 )	852,752
Provision for income taxes	(30,653 )	257,400	66,624	0	293,371
Net income	506,779	513,263	256,033	(716,694 )	559,381
Less: Income attributable to noncontrolling interests	0	0	52,602	0	52,602
Net income attributable to UHS	\$506,779	\$513,263	\$203,431	\$ (716,694 )	\$ 506,779

## UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATING STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2014

(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net revenues before provision for doubtful accounts	\$0	\$1,548,315	\$655,321	\$ (7,123 )	\$2,196,513
Less: Provision for doubtful accounts	0	109,858	47,938	0	157,796
Net revenues	0	1,438,457	607,383	(7,123 )	2,038,717
Operating charges:					
Salaries, wages and benefits	0	680,877	272,706	0	953,583
Other operating expenses	0	384,689	155,758	(6,694 )	533,753
Supplies expense	0	134,966	87,742	0	222,708
Depreciation and amortization	0	67,204	26,252	0	93,456
Lease and rental expense	0	15,034	9,255	(429 )	23,860
Electronic health records incentive income	0	(531 )	(894 )	0	(1,425 )
Costs related to extinguishment of debt	36,171	0	0	0	36,171
	36,171	1,282,239	550,819	(7,123 )	1,862,106
Income from operations	(36,171 )	156,218	56,564	0	176,611
Interest expense	30,503	1,277	353	0	32,133
Interest (income) expense, affiliate	0	22,113	(22,113 )	0	0
Equity in net income of consolidated affiliates	(123,951)	(32,595 )	0	156,546	0
Income before income taxes	57,277	165,423	78,324	(156,546 )	144,478
Provision for income taxes	(25,520 )	54,139	19,821	0	48,440
Net income	82,797	111,284	58,503	(156,546 )	96,038
Less: Income attributable to noncontrolling interests	0	0	13,241	0	13,241
Net income attributable to UHS	\$82,797	\$111,284	\$45,262	\$ (156,546 )	\$82,797

## UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATING STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

(amounts in thousands)

					Total
	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Consolidated Amounts
Net revenues before provision for doubtful accounts	\$0	\$4,574,273	\$2,018,260	\$ (21,801 )	\$ 6,570,732
Less: Provision for doubtful accounts	0	367,375	174,560	0	541,935
Net revenues	0	4,206,898	1,843,700	(21,801 )	6,028,797
Operating charges:					
Salaries, wages and benefits	0	2,038,171	812,697	0	2,850,868
Other operating expenses	0	950,549	464,488	(20,711 )	1,394,326
Supplies expense	0	403,195	259,085	0	662,280
Depreciation and amortization	0	199,540	77,966	0	277,506
Lease and rental expense	0	43,827	27,919	(1,090 )	70,656
Electronic health records incentive income	0	(2,665 )	(1,364 )	0	(4,029 )
Costs related to extinguishment of debt	36,171	0	0	0	36,171
	36,171	3,632,617	1,640,791	(21,801 )	5,287,778
Income from operations	(36,171 )	574,281	202,909	0	741,019
Interest expense	97,665	3,248	1,500	0	102,413
Interest (income) expense, affiliate	0	66,337	(66,337 )	0	0
Equity in net income of consolidated affiliates	(455,156)	(125,458 )	0	580,614	0
Income before income taxes	321,320	630,154	267,746	(580,614 )	638,606
Provision for income taxes	(51,226 )	217,340	57,988	0	224,102
Net income	372,546	412,814	209,758	(580,614 )	414,504
Less: Income attributable to noncontrolling interests	0	0	41,958	0	41,958
Net income attributable to UHS	\$372,546	\$412,814	\$167,800	\$ (580,614 )	\$ 372,546

## UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2015

(amounts in thousands)

	Total				
	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Consolidated Amounts
Net income	\$ 150,287	\$ 150,352	\$ 69,247	\$ (206,232 )	\$ 163,654
Other comprehensive income (loss):					
Unrealized derivative gains on cash flow hedges	(9,888 )	0	0	0	(9,888 )
Amortization of terminated hedge	(84 )	0	0	0	(84 )
Foreign currency translation adjustment	(2,304 )	(2,304 )	0	2,304	(2,304 )
Other comprehensive income before tax	(12,276 )	(2,304 )	0	2,304	(12,276 )
Income tax expense related to items of other comprehensive income	(3,742 )	0	0	0	(3,742 )
Total other comprehensive income, net of tax	(8,534 )	(2,304 )	0	2,304	(8,534 )
Comprehensive income	141,753	148,048	69,247	(203,928 )	155,120
Less: Comprehensive income attributable to noncontrolling interests	0	0	13,367	0	13,367
Comprehensive income attributable to UHS	\$ 141,753	\$ 148,048	\$ 55,880	\$ (203,928 )	\$ 141,753

## UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

(amounts in thousands)

	Total				
	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Consolidated Amounts
Net income	\$ 506,779	\$ 513,263	\$ 256,033	\$ (716,694 )	\$ 559,381
Other comprehensive income (loss):					

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Unrealized derivative gains on cash flow hedges	(4,950 )	0	0	0	(4,950 )
Amortization of terminated hedge	(252 )	0	0	0	(252 )
Foreign currency translation adjustment	(96 )	(96 )	0	96	(96 )
Other comprehensive income before tax	(5,298 )	(96 )	0	96	(5,298 )
Income tax expense related to items of other comprehensive income	(1,530 )	0	0	0	(1,530 )
Total other comprehensive income, net of tax	(3,768 )	(96 )	0	96	(3,768 )
Comprehensive income	503,011	513,167	256,033	(716,598 )	555,613
Less: Comprehensive income attributable to noncontrolling interests					
	0	0	52,602	0	52,602
Comprehensive income attributable to UHS	\$503,011	\$513,167	\$203,431	\$(716,598 )	\$503,011

## UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2014

(amounts in thousands)

					Total
	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Consolidated Amounts
Net income	\$82,797	\$ 111,284	\$ 58,503	\$ (156,546 )	\$ 96,038
Other comprehensive income (loss):					
Unrealized derivative gains on cash flow hedges	4,712	0	0	0	4,712
Amortization of terminated hedge	(84 )	0	0	0	(84 )
Currency translation adjustment	(2,506 )	0	0	0	(2,506 )
Other comprehensive income before tax	2,122	0	0	0	2,122
Income tax expense related to items of other comprehensive income	1,620	0	0	0	1,620
Total other comprehensive income, net of tax	502	0	0	0	502
Comprehensive income	83,299	111,284	58,503	(156,546 )	96,540
Less: Comprehensive income attributable to noncontrolling interests	0	0	13,241	0	13,241
Comprehensive income attributable to UHS	\$83,299	\$ 111,284	\$ 45,262	\$ (156,546 )	\$ 83,299

## UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

(amounts in thousands)

					Total
	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Consolidated Amounts
Net income	\$372,546	\$ 412,814	\$ 209,758	\$ (580,614 )	\$ 414,504
Other comprehensive income (loss):					



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Unrealized derivative gains on cash flow hedges	12,922	0	0	0	12,922
Amortization of terminated hedge	(252 )	0	0	0	(252 )
Currency translation adjustment	(2,506 )	0	0	0	(2,506 )
Other comprehensive income before tax	10,164	0	0	0	10,164
Income tax expense related to items of other comprehensive income	4,685	0	0	0	4,685
Total other comprehensive income, net of tax	5,479	0	0	0	5,479
Comprehensive income	378,025	412,814	209,758	(580,614 )	419,983
Less: Comprehensive income attributable to noncontrolling interests	0	0	41,958	0	41,958
Comprehensive income attributable to UHS	\$ 378,025				