UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended June 30, 2012

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 incorporation or organization)	(I.R.S. Employer Identification No.)

UNIVERSAL CORPORATE CENTER

367 SOUTH GULPH ROAD

KING OF PRUSSIA, PENNSYLVANIA 19406

(Address of principal executive 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 x 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 x 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	x	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 x

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 July 31, 2012:

Class A	6,625,708
Class B	89,576,045
Class C	664,000
Class D	32,148

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UNIVERSAL HEALTH SERVICES, INC.

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In this Report on Form 10-Q for the quarterly period ended June 30, 2012, 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 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.

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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 June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Net revenues before provision for doubtful accounts	$ 1,914,463	$ 1,869,414	$ 3,860,675	$ 3,744,842
Less: Provision for doubtful accounts	184,660	154,950	333,283	304,120
Net revenues	1,729,803	1,714,464	3,527,392	3,440,722
Operating charges:				
Salaries, wages and benefits	856,878	836,559	1,730,872	1,667,317
Other operating expenses	347,412	349,454	700,985	688,811
Supplies expense	198,100	202,003	403,740	405,282
Depreciation and amortization	73,078	71,215	144,970	140,809
Lease and rental expense	24,003	22,996	47,465	45,853
	1,499,471	1,482,227	3,028,032	2,948,072
Income from operations	230,332	232,237	499,360	492,650
Interest expense, net	45,888	49,808	92,598	106,225
Income before income taxes	184,444	182,429	406,762	386,425
Provision for income taxes	67,000	66,395	146,748	140,404
Net income	117,444	116,034	260,014	246,021
Less: Income attributable to noncontrolling interests	9,883	12,385	23,846	28,179
Net income attributable to UHS	$ 107,561	$ 103,649	$ 236,168	$ 217,842
Basic earnings per share attributable to UHS	$ 1.11	$ 1.06	$ 2.44	$ 2.23
Diluted earnings per share attributable to UHS	$ 1.10	$ 1.04	$ 2.41	$ 2.20
Weighted average number of common shares basic	96,691	97,563	96,642	97,472
Add: Other share equivalents	1,038	1,695	1,118	1,591
Weighted average number of common shares and equivalents diluted	97,729	99,258	97,760	99,063

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 COMPREHENSIVE INCOME

(amounts in thousands, unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net income	$ 117,444	$ 116,034	$ 260,014	$ 246,021
Other comprehensive income (loss):				
Unrealized derivative gains (losses) on cash flow hedges	212	(20,583)	1,827	(18,276)
Amortization of terminated hedge	(84)	(84)	(168)	(168)
Other comprehensive income before tax	128	(20,667)	1,659	(18,444)
Income tax expense related to items of other comprehensive income	50	(7,916)	632	(7,056)
Total other comprehensive income, net of tax	78	(12,751)	1,027	(11,388)
Comprehensive income	117,522	103,283	261,041	234,633
Less: Comprehensive income attributable to noncontrolling interests	9,883	12,385	23,846	28,179
Comprehensive income attributable to UHS	$ 107,639	$ 90,898	$ 237,195	$ 206,454

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

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UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, unaudited)

	June 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 32,941	$ 41,229
Accounts receivable, net	1,019,929	969,802
Supplies	96,882	96,775
Other current assets	99,534	99,859
Deferred income taxes	122,795	108,324
Current assets held for sale	84,365	48,916
Total current assets	1,456,446	1,364,905
Property and equipment	5,172,407	5,106,160
Less: accumulated depreciation	(1,875,492)	(1,818,180)
	3,296,915	3,287,980
Other assets:		
Goodwill	2,610,637	2,627,602
Deferred charges	106,095	111,780
Other	288,555	272,978
	$ 7,758,648	$ 7,665,245
Liabilities and Stockholders Equity		
Current liabilities:		
Current maturities of long-term debt	$ 2,497	$ 2,479
Accounts payable and accrued liabilities	852,256	832,125
Current liabilities held for sale	15,966	2,329
Federal and state taxes	12,893	0
Total current liabilities	883,612	836,933
Other noncurrent liabilities	393,928	401,908
Long-term debt	3,458,509	3,651,428
Deferred income taxes	206,403	209,592
Redeemable noncontrolling interests	226,537	218,266
UHS common stockholders equity	2,536,884	2,296,352
Noncontrolling interest	52,775	50,766
Total equity	2,589,659	2,347,118
	$ 7,758,648	$ 7,665,245

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)

	Six months ended June 30, 2012	2011
Cash Flows from Operating Activities:		
Net income	$ 260,014	$ 246,021
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	148,703	144,949
Stock-based compensation expense	10,996	8,665
Changes in assets & liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	(63,937)	(77,661)
Accrued interest	15,873	(2,309)
Accrued and deferred income taxes	3,955	55,420
Other working capital accounts	(13,085)	(48,417)
Other assets and deferred charges	13,866	11,525
Other	2,050	3,468
Accrued insurance expense, net of commercial premiums paid	42,241	47,480
Payments made in settlement of self-insurance claims	(47,814)	(33,365)
Net cash provided by operating activities	372,862	355,776
Cash Flows from Investing Activities:		
Property and equipment additions, net of disposals	(182,351)	(116,240)
Proceeds received from sale of assets and businesses	53,461	2,041
Acquisition of property and businesses	(11,476)	0
Costs incurred for purchase and implementation of electronic health records application	(28,008)	(11,416)
Return of deposit on terminated purchase agreement	6,500	0
Net cash used in investing activities	(161,874)	(125,615)
Cash Flows from Financing Activities:		
Reduction of long-term debt	(195,686)	(200,566)
Additional borrowings	0	36,000
Financing costs	0	(23,534)
Repurchase of common shares	(2,927)	(6,163)
Dividends paid	(9,673)	(9,763)
Issuance of common stock	2,575	2,408
Profit distributions to noncontrolling interests	(13,565)	(23,201)
Net cash used in financing activities	(219,276)	(224,819)
(Decrease) increase in cash and cash equivalents	(8,288)	5,342
Cash and cash equivalents, beginning of period	41,229	29,474
Cash and cash equivalents, end of period	$ 32,941	$ 34,816
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 62,158	$ 102,213

Income taxes paid, net of refunds	$ 141,571	$ 83,532

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 June 30, 2012. 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 normal and 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, 2011.

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

Relationship with Universal Health Realty Income Trust:

At June 30, 2012, 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 $520,000 and $480,000 during the three-month periods ended June 30, 2012 and 2011, respectively and $1.0 million and $951,000 during the six-month periods ended June 30, 2012 and 2011, respectively. Our pre-tax share of income from the Trust was $591,000 and $260,000 for the three-month periods ended June 30, 2012 and 2011, respectively, and $891,000 and $560,000 for the six-month periods ended June 30, 2012 and 2011, respectively. The carrying value of this investment was $9.0 million and $9.9 million at June 30, 2012 and December 31, 2011, 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 $32.7 million at June 30, 2012 and $30.7 million at December 31, 2011.

Total rent expense under the operating leases on the hospital facilities with the Trust was $4.1 million during each of the three-month periods ended June 30, 2012 and 2011, and $8.2 million and $8.3 million for the six-month periods ended June 30, 2012 and 2011, 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, giving effect to the above-mentioned renewals:

Hospital Name	Type of Facility	Annual Minimum Rent	End of Lease Term	Renewal Term (years)
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 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 2011 or the first six months of 2012.

In connection with the commencement of Marvin G. Pember s employment with us in August, 2011 as Senior Vice President and President of our Acute Care division, we agreed to purchase his former personal residence located in Indiana if it remained unsold to a third-party for longer than 180 days after commencement of his employment. Since the property remained unsold, the purchase occurred in June, 2012 for approximately $1 million which represents the fair-market value as derived by third-party appraisals. We are actively marketing the property for sale to a third-party buyer.

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 $227 million and $218 million as of June 30, 2012 and December 31, 2011, respectively, and the noncontrolling interest balances of $53 million and $51 million at June 30, 2012 and December 31, 2011, 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 June 30, 2012, 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 November 15, 2010, we entered into a credit agreement (the Credit Agreement) with various financial institutions. The Credit Agreement is a senior secured facility which provided an initial aggregate commitment amount of $3.45 billion, comprised of a new $800 million revolving credit facility, a $1.05 billion Term Loan A facility and a $1.6 billion Term Loan B facility. Prior to the effectiveness of the Credit Agreement Amendment in March, 2011 (as discussed below), we prepaid the principal amount and permanently reduced the Term Loan B commitment by $125 million. During the first six months of 2012, we made scheduled principal payments of $36 million on the Term Loan A and $13 million on the Term Loan B. The revolving credit facility and the Term Loan A mature on November 15, 2015 and the Term Loan B matures on November 15, 2016. 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.

On March 15, 2011, we entered into a first amendment to the Credit Agreement (the Amendment) which became effective immediately and provides, among other things, for a reduction in the interest rates payable in connection with borrowings under the Credit Agreement. Upon the effectiveness of the Amendment, borrowings under the Credit Agreement bear interest at the ABR rate which is defined as the rate per annum equal to, at our election (1) 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 Eurodollar 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 and 1.75% to 2.00% for Term Loan B borrowings or (2) the one, two, three or six month Eurodollar 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 and ranging from 2.75% to 3.00% for Term Loan B borrowings. The current applicable margins are 0.75% for ABR-based loans, 1.75% for Eurodollar-based loans under the revolving credit and Term Loan A facilities and 2.75% under the Term Loan B facility. Upon the effectiveness of the Amendment, the minimum Eurodollar rate for the Term Loan B facility was reduced from 1.50% to 1.00%. In connection with the Amendment, we paid a fee of 1.00% of the amounts outstanding under the Term Loan B in accordance with the terms of the Credit Agreement.

As of June 30, 2012, we had $623 million of available borrowing capacity pursuant to the terms of our Credit Agreement, net of $115 million of outstanding borrowings and $62 million of outstanding letters of credit.

In October, 2010, we amended our accounts receivable securitization program (Securitization) with a group of conduit lenders and liquidity banks. We increased the size of the Securitization to $240 million (the Commitments), from $200 million, and extended the maturity date to October 25, 2013. In May, 2012, we further increased the size of the securitization by $35 million to $275 million. Substantially all of the patient-related accounts receivable of our acute care hospitals (Receivables) serve as collateral for the outstanding borrowings. The interest rate on the borrowings is based on the commercial paper rate plus a spread of 0.475% and there is a facility fee of 0.375% required on 102% on the Commitments. 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 June 30, 2012, we had $230 million of outstanding borrowings and $45 million of additional capacity pursuant to the terms of our accounts receivable securitization program.

As of June 30, 2012, we had no outstanding borrowings under a short-term, on-demand credit facility. When applicable, outstanding borrowings pursuant to this facility are classified as long-term debt on our Consolidated Balance Sheet since we have the intent and ability to refinance through available borrowings under the terms of our Credit Agreement.

On September 29, 2010, we issued $250 million of 7.00% senior unsecured notes (the Unsecured Notes) which are scheduled to mature on October 1, 2018. The Unsecured Notes were registered in April, 2011. Interest on the Unsecured Notes 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 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.

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 June 30, 2012.

The carrying amount and fair value of our debt was $3.46 billion and $3.53 billion at June 30, 2012, respectively. 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 to 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 stockholders equity. Amounts are reclassified from AOCI to the income statement in the period or periods in which 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 changes 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 and consideration of nonperformance risk of our hedge instruments on a quarterly basis. We performed periodic assessments of the cash flow hedge instruments during 2011 and the first six months of 2012 and determined the hedges to be highly effective. We also determined that no significant portion of the hedges is ineffective as of June 30, 2012. The counterparties to the interest rate swap agreements expose us to credit risk in the event of nonperformance. We do not anticipate nonperformance by our counterparties. At June 30, 2012, 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 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 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 fixed rates of 2.50%, 1.96% and 1.32%, and maturity dates in December, 2014, December, 2013 and December, 2012, respectively.

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%.

During the fourth quarter of 2007, we entered into an interest rate swap whereby we pay a fixed rate on a total notional principal amount of $75 million and receive three-month LIBOR. The fixed rate payable is 4.76% and it matures in October, 2012.

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 $46 million at June 30, 2012, of which $1 million is included in other current liabilities and $45 million is included in other noncurrent liabilities on the accompanying balance sheet.

(5) Commitments and Contingencies

Professional and General Liability Claims and Property Insurance

Professional and General 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 manage the applicable self-insured retention for 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.

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 June 30, 2012 and December 31, 2011, the total accrual for our professional and general liability claims, including the estimated claims related to the facilities acquired from PSI, was $288 million and $292 million, respectively, of which $60 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.

Other

As of June 30, 2012 and December 31, 2011, our accounts receivable includes approximately $72 million and $54 million, respectively, due from Illinois. Collection of these receivables continues to be delayed due to state budgetary and funding pressures. Approximately $52 million as of June 30, 2012, and $41 million as of December 31, 2011, of the receivables due from Illinois have been outstanding in excess of 60 days, as of each respective date, and a large portion will likely 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 June 30, 2012, we were party to certain off balance sheet arrangements consisting of standby letters of credit and surety bonds which totaled $81 million consisting of: (i) $65 million related to our self-insurance programs, and; (ii) $16 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.

Martin v. UHS of Delaware:

UHS of Delaware, Inc., a wholly-owned subsidiary of ours, has been named as defendants in a state False Claim Act case in Sacramento County Superior Court. Plaintiffs are a former student and employees of the Elmira School who claim that the UHS schools in California unlawfully retained public education funding from the state of California for the operation of these schools but failed to meet state requirements pertaining to the operation of non-public schools. During the second quarter of 2012, we reached a settlement in connection with this matter which requires finalization of a definitive agreement which is subject to approval of the California Attorney General s Office and Superior Court presiding over the case. We have established a reserve in connection with this matter which did not have a material impact on our consolidated financial statements.

Department of Justice ICD Investigation:

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 Claims 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.

Two Rivers Psychiatric Hospital:

In April, 2011, the Centers for Medicare and Medicaid Services (CMS) issued notice of its decision terminating Two Rivers Psychiatric Hospital (Two Rivers) in Kansas City, Missouri from participation in the Medicare and Medicaid program. The termination notice was issued as a result of surveys conducted which allegedly found Two Rivers to be out of compliance with the conditions of participation required for participation in the Medicare program and for Two Rivers alleged failure to alleviate an immediate jeopardy situation. Two Rivers filed an administrative appeal with the U.S. Department of Health and Human Services, Departmental Appeal Board, Civil Remedies Division, seeking review and reversal of that decision. In addition, Two Rivers filed a complaint in the U.S. District Court for the Western District of Missouri seeking a temporary restraining order and preliminary injunction against CMS rescinding the termination action. Later in April, 2011, the District Court issued a temporary restraining order abating the termination action pending a preliminary injunction hearing or an agreement with CMS. In May, 2011, Two Rivers and CMS entered into a settlement agreement which resulted in the rescission of the termination notice and actions by CMS. Pursuant to the terms of the agreement, Two Rivers was required to submit an acceptable plan of correction relative to the immediate jeopardy citation and engage independent experts in various disciplines to analyze and develop implementation plans for Two Rivers to meet the applicable Medicare conditions of participation. Both of these actions have occurred. Pursuant to the agreement, CMS conducted an initial survey of Two Rivers in April 2012 to determine if the Medicare conditions of participation, which formed the basis of the termination action in April 2011, have been met. In late April, 2012, CMS advised Two Rivers that it has successfully passed this initial survey. Pursuant to the terms of the agreement, a second survey will be conducted either late 2012 or early 2013 to further confirm that Two Rivers is in compliance with all Medicare/Medicaid Conditions of Participation. During the term of this agreement, Two Rivers remains eligible to receive reimbursements for services rendered to Medicare and Medicaid beneficiaries. Two Rivers remains fully committed to providing high-quality healthcare to their patients and the community it serves. We therefore intend to work expeditiously and collaboratively with CMS in an effort to resolve these matters. We can provide no assurance that Two Rivers will not ultimately lose its Medicare certification. The operating results of Two Rivers did not have a material impact on our consolidated results of operations or financial condition for the six-month period ended June 30, 2012 or the year ended December 31, 2011.

Office of Inspector General Investigation of Peachford Hospital:

In July, 2012, one of our subsidiaries, Peachford Behavioral Health System of Atlanta located in Atlanta, Georgia, received a subpoena from the Office of the Inspector General for the Department of Health and Human Services requesting various documents from 2004 to the present. We are in the process of securing and collecting the requested documents for production. 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.

Matters Relating to PSI:

The following matters pertain to PSI or former PSI facilities (owned by subsidiaries of Psychiatric Solutions, Inc.) for which we have assumed the defense as a result of our acquisition of PSI 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 June 30, 2012 and December 31, 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, a portion of which have been collected and delivered to the DOJ, pursuant to their request. 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 and we continue to cooperate with the DOJ with respect to this investigation. 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. The aggregate refund of Medicaid payments made to those facilities, as requested by DMAS, and the corresponding reserve established on our consolidated balance sheet, was not material to our consolidated financial position or results of operations.

General:

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, 2011. 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.

	Three months ended June 30, 2012			
	Acute Care Hospital Services	Behavioral Health Services	Other	Total Consolidated
	(Amounts in thousands)			
Gross inpatient revenues	$ 3,034,837	$ 1,423,894		$ 4,458,731
Gross outpatient revenues	$ 1,540,569	$ 162,475	$ 12,723	$ 1,715,767
Total net revenues	$ 845,552	$ 875,031	$ 9,220	$ 1,729,803
Income/(loss) before allocation of corporate overhead and income taxes	$ 61,602	$ 224,963	($ 102,121)	$ 184,444
Allocation of corporate overhead	($37,979)	($21,071)	$ 59,050	0
Income/(loss) after allocation of corporate overhead and before income taxes	$ 23,623	$ 203,892	($43,071)	$ 184,444
Total assets as of 6/30/12	$ 2,957,192	$ 4,431,758	$ 369,698	$ 7,758,648

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	Six months ended June 30, 2012			
	Acute Care Hospital Services	Behavioral Health Services	Other	Total Consolidated
	(Amounts in thousands)			
Gross inpatient revenues	$ 6,312,862	$ 2,845,979		$ 9,158,841
Gross outpatient revenues	$ 3,089,419	$ 323,733	$ 24,993	$ 3,438,145
Total net revenues	$ 1,772,083	$ 1,739,904	$ 15,405	$ 3,527,392
Income/(loss) before allocation of corporate overhead and income taxes	$ 191,450	$ 427,459	($ 212,147)	$ 406,762
Allocation of corporate overhead	($78,722)	($42,132)	$ 120,854	0
Income/(loss) after allocation of corporate overhead and before income taxes	$ 112,728	$ 385,327	($91,293)	$ 406,762
Total assets as of 6/30/12	$ 2,957,192	$ 4,431,758	$ 369,698	$ 7,758,648

	Three months ended June 30, 2011			
	Acute Care Hospital Services	Behavioral Health Services	Other	Total Consolidated
	(Amounts in thousands)			
Gross inpatient revenues	$ 2,951,260	$ 1,404,643		$ 4,355,903
Gross outpatient revenues	$ 1,364,531	$ 157,748	$ 14,671	$ 1,536,950
Total net revenues	$ 863,907	$ 844,734	$ 5,823	$ 1,714,464
Income/(loss) before allocation of corporate overhead and income taxes	$ 91,145	$ 189,590	($98,306)	$ 182,429
Allocation of corporate overhead	($30,518)	($15,691)	$ 46,209	0
Income/(loss) after allocation of corporate overhead and before income taxes	$ 60,627	$ 173,899	($52,097)	$ 182,429
Total assets as of 6/30/11	$ 2,779,803	$ 4,381,320	$ 404,630	$ 7,565,753

	Six months ended June 30, 2011			
	Acute Care Hospital Services	Behavioral Health Services	Other	Total Consolidated
	(Amounts in thousands)			
Gross inpatient revenues	$ 6,107,084	$ 2,795,844		$ 8,902,928
Gross outpatient revenues	$ 2,684,482	$ 307,343	$ 27,540	$ 3,019,365
Total net revenues	$ 1,755,295	$ 1,673,678	$ 11,749	$ 3,440,722
Income/(loss) before allocation of corporate overhead and income taxes	$ 218,129	$ 375,378	($207,082)	$ 386,425
Allocation of corporate overhead	($63,324)	($31,416)	$ 94,740	0
Income/(loss) after allocation of corporate overhead and before income taxes	$ 154,805	$ 343,962	($ 112,342)	$ 386,425
Total assets as of 6/30/11	$ 2,779,803	$ 4,381,320	$ 404,630	$ 7,565,753

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(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.

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

	Three months ended June 30,		Six months ended June 30,	
	(amounts in thousands)			
	2012	**2011**	**2012**	**2011**
Basic and Diluted:				
Net income attributable to UHS	$ 107,561	$ 103,649	$ 236,168	$ 217,842
Less: Net income attributable to unvested restricted share grants	(126)	(126)	(294)	(275)
Net income attributable to UHS basic and diluted	$ 107,435	$ 103,523	$ 235,874	$ 217,567
Weighted average number of common shares basic	96,691	97,563	96,642	97,472
Net effect of dilutive stock options and grants based on the treasury stock method	1,038	1,695	1,118	1,591
Weighted average number of common shares and equivalents diluted	97,729	99,258	97,760	99,063
Earnings per basic share attributable to UHS:	$ 1.11	$ 1.06	$ 2.44	$ 2.23
Earnings per diluted share attributable to UHS:	$ 1.10	$ 1.04	$ 2.41	$ 2.20

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. The excluded weighted-average stock options totaled 2.6 million for each of the three months and six months ended June 30, 2012. There were no significant anti-dilutive stock options during the three and six months ended June 30, 2011. All classes of our common stock have the same dividend rights.

Stock-Based Compensation: During the three-month periods ended June 30, 2012 and 2011, compensation cost of $4.7 million ($2.9 million after-tax) and $4.2 million ($2.6 million after-tax), respectively, was recognized related to outstanding stock options. During the six-month periods ended June 30, 2012 and 2011, compensation cost of $9.6 million ($6.0 million after-tax) and $7.7 million ($4.7 million after-tax), respectively, was recognized related to outstanding stock options. In addition, during the three-month periods ended June 30, 2012 and 2011, compensation cost of approximately $593,000 ($369,000 after-tax) and $455,000 ($281,000 after-tax), respectively, was recognized related to restricted stock. During the six-month periods ended June 30, 2012 and 2011, compensation cost of approximately $1.2 million ($727,000 after-tax) and $906,000 ($559,000 after-tax), respectively, was recognized related to restricted stock. As of June 30, 2012 there was $45.3 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 2,870,200 stock options granted (net of cancellations) during the first six months of 2012 with a weighted-average grant date fair value of $10.72 per share. There were 54,127 restricted stock shares granted during the first six months of 2012, with a weighted-average grant date fair value of $36.95 per share.

(8) Dispositions and acquisitions

Six-month period ended June 30, 2012:

Acquisitions:

In June, 2012, we executed a definitive agreement to acquire Ascend Health Corporation (Ascend) for $500 million in cash. Including the assumption of $17 million in Ascend net debt, the total transaction consideration is approximately $517 million. Ascend is the largest private psychiatric hospital provider with 9 owned or leased freestanding psychiatric inpatient facilities located in 5 states including Texas, Arizona, Utah, Oregon and Washington. We expect to complete the transaction in the fourth quarter of 2012, subject to customary closing conditions, including regulatory approvals and clearance under the Hart-Scott-Rodino Act.

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During the first six months of 2012, we spent $11 million in connection with the acquisition of a physician practice and various real properties.

As a result of the third-party seller s inability to obtain the removal of the deed restriction on its hospital, we provided the seller with a notice of termination of the previously executed purchase agreement in connection with our planned acquisition of the Knapp Medical Center located in Weslaco, Texas. In connection with this termination, our $6.5 million deposit was refunded to us in March, 2012.

Divestitures:

During the first six months of 2012, we received aggregate cash proceeds of approximately $53 million for the divestiture of: (i) the Hospital San Juan Capestrano, 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 a previously closed behavioral health care facility. The pre-tax net gain on these divestitures did not have a material impact on our consolidated results of operations during the first six months of 2012. The assets and liabilities for the Hospital San Juan Capestrano were reflected as held for sale on our Consolidated Balance Sheet as of December 31, 2011.

In addition, we executed a definitive agreement to sell Auburn Regional Medical Center, a 213-bed acute care hospital located in Auburn, Washington, for total cash proceeds of approximately $98 million including estimated working capital. The transaction, which is subject to customary regulatory approvals, is expected to occur in the fourth quarter of 2012. We expect to realize a substantial gain on the divestiture of this hospital which will be recorded in our consolidated financial statements upon closing of the transaction. The operating results for Auburn Regional Medical Center are reflected as discontinued operations for each of the periods presented herein. Since the hospital s income/loss before income taxes is not material to our consolidated financial statements it is included in other operating expenses. The assets and liabilities for Auburn Regional Medical Center are reflected as held for sale on our Consolidated Balance Sheet as of June 30, 2012.

Six-month period ended June 30, 2011:

Acquisitions:

There were no acquisitions during the first six months of 2011.

Divestitures:

During the first six months of 2011, we received cash proceeds of $2 million for: (i) sale of the real property of a closed acute care hospital (during first quarter), and; (ii) installment payment for our ownership interest in an outpatient surgery center (during second quarter). These transactions did not have a material impact on our consolidated financial statements or results of operations.

(9) Dividends

We declared and paid dividends of $4.8 million, or $.05 per share, during the second quarter of 2012 and $4.9 million, or $.05 per share, during the second quarter of 2011. We declared and paid dividends of $9.7 million and $9.8 million during the six-month periods ended June 30, 2012 and 2011, respectively.

(10) Pension Plan

The following table shows the components of net periodic pension cost for our defined benefit pension plan as of June 30, 2012 and 2011 (amounts in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Service cost	$ 286	$ 247	$ 572	$ 581
Interest cost	1,165	1,071	2,330	2,523
Expected return on assets	(2,111)	(1,774)	(3,651)	(3,283)
Recognized actuarial loss	1,055	470	2,110	1,214

Net periodic pension cost	$ 395	$ 14	$ 1,361	$ 1,035

During the six months ended June 30, 2012, we made contributions totaling $7.1 million to our pension plan.

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(11) Income Taxes

As of January 1, 2012, our unrecognized tax benefits were approximately $7 million. The amount, if recognized, that would affect the effective tax rate is approximately $5 million. During the quarter ended June 30, 2012, 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 June 30, 2012, we have approximately $1 million of accrued interest and penalties. The U.S. federal statute of limitations remains open for the 2008 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.

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.

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.

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UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED JUNE 30, 2012

(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net revenues before provision for doubtful accounts	$ 0	$ 1,295,803	$ 625,213	$ (6,553)	$ 1,914,463
Less: Provision for doubtful accounts	0	105,390	79,270	0	184,660
Net revenues	0	1,190,413	545,943	(6,553)	1,729,803
Operating charges:					
Salaries, wages and benefits	0	608,937	247,941	0	856,878
Other operating expenses	0	223,553	130,318	(6,459)	347,412
Supplies expense	0	122,524	75,576	0	198,100
Depreciation and amortization	0	50,997	22,081	0	73,078
Lease and rental expense	0	14,394	9,703	(94)	24,003
	0	1,020,405	485,619	(6,553)	1,499,471
Income from operations	0	170,008	60,324	0	230,332
Interest expense	44,298	838	752	0	45,888
Interest (income) expense, affiliate	0	22,783	(22,783)	0	0
Equity in net income of consolidated affiliates	(134,904)	(28,548)	0	163,452	0
Income before income taxes	90,606	174,935	82,355	(163,452)	184,444
Provision for income taxes	(16,955)	62,521	21,434	0	67,000
Net income	107,561	112,414	60,921	(163,452)	117,444
Less: Income attributable to noncontrolling interests	0	0	9,883	0	9,883
Net income attributable to UHS	$ 107,561	$ 112,414	$ 51,038	$ (163,452)	$ 107,561

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UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2012

(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net revenues before provision for doubtful accounts	$ 0	$ 2,629,267	$ 1,244,287	$ (12,879)	$ 3,860,675
Less: Provision for doubtful accounts	0	194,768	138,515	0	333,283
Net revenues	0	2,434,499	1,105,772	(12,879)	3,527,392
Operating charges:					
Salaries, wages and benefits	0	1,229,795	501,077	0	1,730,872
Other operating expenses	0	459,587	254,088	(12,690)	700,985
Supplies expense	0	250,833	152,907	0	403,740
Depreciation and amortization	0	102,256	42,714	0	144,970
Lease and rental expense	0	29,238	18,416	(189)	47,465
	0	2,071,709	969,202	(12,879)	3,028,032
Income from operations	0	362,790	136,570	0	499,360
Interest expense	89,452	1,625	1,521	0	92,598
Interest (income) expense, affiliate	0	45,565	(45,565)	0	0
Equity in net income of consolidated affiliates	(291,382)	(69,625)	0	361,007	0
Income before income taxes	201,930	385,225	180,614	(361,007)	406,762
Provision for income taxes	(34,238)	136,629	44,357	0	146,748
Net income	236,168	248,596	136,257	(361,007)	260,014
Less: Income attributable to noncontrolling interests	0	0	23,846	0	23,846
Net income attributable to UHS	$ 236,168	$ 248,596	$ 112,411	$ (361,007)	$ 236,168

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UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED JUNE 30, 2011

(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net revenues before provision for doubtful accounts	$ 0	$ 1,265,907	$ 609,853	$ (6,346)	$ 1,869,414
Less: Provision for doubtful accounts	0	80,327	74,623	0	154,950
Net revenues	0	1,185,580	535,230	(6,346)	1,714,464
Operating charges:					
Salaries, wages and benefits	0	597,724	238,835	0	836,559
Other operating expenses	0	236,064	119,641	(6,251)	349,454
Supplies expense	0	126,185	75,818	0	202,003
Depreciation and amortization	0	51,088	20,127	0	71,215
Lease and rental expense	0	15,325	7,766	(95)	22,996
	0	1,026,386	462,187	(6,346)	1,482,227
Income from operations	0	159,194	73,043	0	232,237
Interest expense, net	48,386	809	613	0	49,808
Interest (income) expense, affiliate	0	15,904	(15,904)	0	0
Equity in net income of consolidated affiliates	(133,832)	(38,049)	0	171,881	0
Income before income taxes	85,446	180,530	88,334	(171,881)	182,429
Provision for income taxes	(18,203)	65,171	19,427	0	66,395
Net income	103,649	115,359	68,907	(171,881)	116,034
Less: Income attributable to noncontrolling interests	0	0	12,385	0	12,385
Net income attributable to UHS	$ 103,649	$ 115,359	$ 56,522	$ (171,881)	$ 103,649

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UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2011

(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net revenues before provision for doubtful accounts	$ 0	$ 2,550,935	$ 1,206,560	$ (12,653)	$ 3,744,842
Less: Provision for doubtful accounts	0	170,756	133,364	0	304,120
Net revenues	0	2,380,179	1,073,196	(12,653)	3,440,722
Operating charges:					
Salaries, wages and benefits	0	1,190,926	476,391	0	1,667,317
Other operating expenses	0	467,052	234,222	(12,463)	688,811
Supplies expense	0	253,889	151,393	0	405,282
Depreciation and amortization	0	101,721	39,088	0	140,809
Lease and rental expense	0	30,995	15,048	(190)	45,853
	0	2,044,583	916,142	(12,653)	2,948,072
Income from operations	0	335,596	157,054	0	492,650
Interest expense, net	103,256	1,602	1,367	0	106,225
Interest (income) expense, affiliate	0	31,808	(31,808)	0	0
Equity in net income of consolidated affiliates	(281,440)	(88,251)	0	369,691	0
Income before income taxes	178,184	390,437	187,495	(369,691)	386,425
Provision for income taxes	(39,658)	140,132	39,930	0	140,404
Net income	217,842	250,305	147,565	(369,691)	246,021
Less: Income attributable to noncontrolling interests	0	0	28,179	0	28,179
Net income attributable to UHS	$ 217,842	$ 250,305	$ 119,386	$ (369,691)	$ 217,842

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UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED JUNE 30, 2012

(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net income	$ 107,561	$ 112,414	$ 60,921	$ (163,452)	$ 117,444
Other comprehensive income (loss):					
Unrealized derivative gains on cash flow hedges	212	0	0	0	212
Amortization of terminated hedge	(84)	0	0	0	(84)
Other comprehensive income before tax	128	0	0	0	128
Income tax expense related to items of other comprehensive income	50	0	0	0	50
Total other comprehensive income, net of tax	78	0	0	0	78
Comprehensive income	107,639	112,414	60,921	(163,452)	117,522
Less: Comprehensive income attributable to noncontrolling interests	0	0	9,883	0	9,883
Comprehensive income attributable to UHS	$ 107,639	$ 112,414	$ 51,038	$ (163,452)	$ 107,639

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2012

(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net income	$ 236,168	$ 248,596	$ 136,257	$ (361,007)	$ 260,014
Other comprehensive income (loss):					
Unrealized derivative gains on cash flow hedges	1,827	0	0	0	1,827
Amortization of terminated hedge	(168)	0	0	0	(168)
Other comprehensive income before tax	1,659	0	0	0	1,659
Income tax expense related to items of other comprehensive income	632	0	0	0	632

Total other comprehensive income, net of tax	1,027	0	0	0	1,027
Comprehensive income	237,195	248,596	136,257	(361,007)	261,041
Less: Comprehensive income attributable to noncontrolling interests	0	0	23,846	0	23,846
Comprehensive income attributable to UHS	$ 237,195	$ 248,596	$ 112,411	$ (361,007)	$ 237,195

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UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED JUNE 30, 2011

(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net income	$ 103,649	$ 115,359	$ 68,907	$ (171,881)	$ 116,034
Other comprehensive income (loss):					
Unrealized derivative losses on cash flow hedges	(20,583)	0	0	0	(20,583)
Amortization of terminated hedge	(84)	0	0	0	(84)
Other comprehensive income before tax	(20,667)	0	0	0	(20,667)
Income tax expense related to items of other comprehensive income	(7,916)	0	0	0	(7,916)
Total other comprehensive income, net of tax	(12,751)	0	0	0	(12,751)
Comprehensive income	90,898	115,359	68,907	(171,881)	103,283
Less: Comprehensive income attributable to noncontrolling interests	0	0	12,385	0	12,385
Comprehensive income attributable to UHS	$ 90,898	$ 115,359	$ 56,522	$ (171,881)	$ 90,898

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2011

(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Net income	$ 217,842	$ 250,305	$ 147,565	$ (369,691)	$ 246,021
Other comprehensive income (loss):					
Unrealized derivative losses on cash flow hedges	(18,276)	0	0	0	(18,276)
Amortization of terminated hedge	(168)	0	0	0	(168)
Other comprehensive income before tax	(18,444)	0	0	0	(18,444)
Income tax expense related to items of other comprehensive income	(7,056)	0	0	0	(7,056)

Total other comprehensive income, net of tax	(11,388)	0	0	0	(11,388)
Comprehensive income	206,454	250,305	147,565	(369,691)	234,633
Less: Comprehensive income attributable to noncontrolling interests	0	0	28,179	0	28,179
Comprehensive income attributable to UHS	$ 206,454	$ 250,305	$ 119,386	$ (369,691)	$ 206,454

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UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 2012

(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Assets					
Current assets:					
Cash and cash equivalents	$ 0	$ 23,148	$ 9,793	$ 0	$ 32,941
Accounts receivable, net	3,786	705,845	310,298	0	1,019,929
Supplies	0	58,738	38,144	0	96,882
Other current assets	12,878	77,560	9,096	0	99,534
Deferred income taxes	81,565	41,230	322	(322)	122,795
Current assets held for sale	0	84,365	0	0	84,365
Total current assets	98,229	990,886	367,653	(322)	1,456,446
Investments in subsidiaries	5,504,955	1,251,474	0	(6,756,429)	0
Intercompany receivable	475,833	0	129,403	(605,236)	0
Intercompany note receivable	0	0	1,142,539	(1,142,539)	0
Property and equipment	0	3,687,805	1,484,602	0	5,172,407
Less: accumulated depreciation	0	(1,205,261)	(670,231)	0	(1,875,492)
	0	2,482,544	814,371	0	3,296,915
Other assets:					
Goodwill	820	2,115,465	494,352	0	2,610,637
Deferred charges	91,728	5,986	8,381	0	106,095
Other	9,450	192,612	86,493	0	288,555
	$ 6,181,015	$ 7,038,967	$ 3,043,192	$ (8,504,526)	$ 7,758,648
Liabilities and Stockholders Equity					
Current liabilities:					
Current maturities of long-term debt	$ 0	$ 1,049	$ 1,448	$ 0	$ 2,497
Accounts payable and accrued liabilities	27,519	620,332	204,405	0	852,256
Current liabilities held for sale	0	15,966	0	0	15,966
Federal and state taxes	12,072	201	620	0	12,893
Total current liabilities	39,591	637,548	206,473	0	883,612
Intercompany payable	0	605,236	0	(605,236)	0
Other noncurrent liabilities	50,747	237,291	105,890	0	393,928
Long-term debt	3,405,069	1,411	52,029	0	3,458,509
Intercompany note payable	0	1,142,539	0	(1,142,539)	0
Deferred income taxes	148,724	58,001	0	(322)	206,403
Redeemable noncontrolling interests	0	0	226,537	0	226,537
UHS common stockholders equity	2,536,884	4,356,941	2,399,488	(6,756,429)	2,536,884

Noncontrolling interest	0	0	52,775	0	52,775
Total equity	2,536,884	4,356,941	2,452,263	(6,756,429)	2,589,659
	$ 6,181,015	$ 7,038,967	$ 3,043,192	$ (8,504,526)	$ 7,758,648

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UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2011

(amounts in thousands)

	Parent	Guarantors	Non Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Assets					
Current assets:					
Cash and cash equivalents	$ 0	$ 33,221	$ 8,008	$ 0	$ 41,229
Accounts receivable, net	8,891	663,593	297,318	0	969,802
Supplies	0	59,467	37,308	0	96,775
Other current assets	33,057	56,864	9,938	0	99,859
Deferred income taxes	67,189	41,755	322	(942)	108,324
Current assets held for sale	0	48,916	0	0	48,916
Total current assets	109,137	903,816	352,894	(942)	1,364,905
Investments in subsidiaries	5,213,573	1,181,849	0	(6,395,422)	0
Intercompany receivable	669,112	0	74,155	(743,267)	0
Intercompany note receivable	0	0	1,148,839	(1,148,839)	0
Property and equipment	0	3,650,025	1,456,135	0	5,106,160
Less: accumulated depreciation	0	(1,184,283)	(633,897)	0	(1,818,180)
	0	2,465,742	822,238	0	3,287,980
Other assets:					
Goodwill	820	2,132,103	494,679	0	2,627,602
Deferred charges	103,434	5,972	2,374	0	111,780
Other	10,412	241,107	21,459	0	272,978
	$ 6,106,488	$ 6,930,589	$ 2,916,638	$ (8,288,470)	$ 7,665,245
Liabilities and Stockholders Equity					
Current liabilities:					
Current maturities of long-term debt	$ 0	$ 1,133	$ 1,346	$ 0	$ 2,479
Accounts payable and accrued liabilities	14,201	616,026	201,898	0	832,125
Current liabilities held for sale	0	2,329	0	0	2,329
Federal and state taxes	0	0	620	(620)	0
Total current liabilities	14,201	619,488	203,864	(620)	836,933
Intercompany payable	0	743,267	0	(743,267)	0